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Transportation in Greater Vancouver:

A Review of Agreements Between the Province and TransLink, and of TransLink's Governance Structure

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The Honourable Claude Richmond
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2001/02 Report 2: Transportation in Greater Vancouver: A Review of Agreements Between the Province and TransLink, and of TransLink's Governance Structure.

Wayne Strelioff

Wayne Strelioff, CA
Auditor General

Victoria, British Columbia
August 2001

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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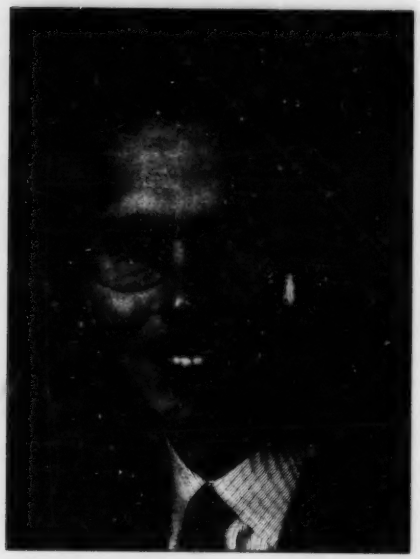
auditor general's comments



In 1999, after extensive negotiation with the Greater Vancouver Regional District (GVRD), the Province transferred responsibility for Greater Vancouver's public transit, major regional roads and AirCare program to a newly created body—TransLink. This new arrangement was intended to enable local decision making, provide suitable governance, and secure good accountability.

This was a significant event. It involved the devolution of responsibility for services that affect many citizens of British Columbia's largest urban area—services whose delivery is complex, expensive, and often controversial.

In the spring of this year the provincial government asked me to review certain issues arising since TransLink was set up. I consulted with many of the key stakeholders involved, and consistently heard concerns that some aspects of the devolution process were not unfolding as expected. After considering the information needs of the Legislative Assembly and the public, I decided to undertake a review, focusing my examination on three questions.

The first is whether service and financial expectations for regional transit are being met.

The second is whether rapid transit (SkyTrain) expansion in Greater Vancouver will occur as planned. This question has three parts:

- whether the steps necessary to bring the first phase of the expansion into revenue service are being taken;
- how the start-up costs of the first phase of the expansion should be allocated between the provincial government and TransLink; and
- whether planning for subsequent phases of the expansion is proceeding as contemplated in the cost-sharing agreement between the provincial government and TransLink.

The third question is whether the governance structure now in place promotes good governance, accountability and decision-making.

TransLink has been unable to raise the extra revenue needed to meet service and financial expectations

Once TransLink started operations in 1999, it began work on a strategic transportation plan. After extensive public consultation, TransLink obtained approval from both its own board and the GVRD board for a plan that included both service expansion and a new revenue source (a vehicle levy) to help pay for the expansion.

TransLink began to deliver the expanded service called for in the plan—designing new routes and ordering new buses and other equipment.

Both the service expansion and revenue source were linked to the primary reason that TransLink was set up: namely, to contribute to the success of the region's land use plan. The strategic transportation plan makes the link clear: "To the maximum extent practical and equitable, TransLink should raise the revenues required in ways that shape transportation demand. From this perspective, the 'best' sources of revenues are those directly associated with use of the transportation system."

To collect the vehicle levy, TransLink needed the support of the provincial government. This support the government gave initially but later rescinded. In response, TransLink proposed alternative ways of collecting the levy, or raising the needed extra revenue from another transportation-related source, gasoline tax. Each alternative required provincial support, but the Province declined to give it. The result is that TransLink has stopped its service growth and reduced its recently expanded service to avoid running a deficit (which it is not permitted to do).

Rapid transit expansion in Greater Vancouver is occurring as planned

TransLink has announced that, without the vehicle levy, it will be unable to operate the first portion of the SkyTrain expansion. Also, the Province and TransLink have been unable to reach agreement on two outstanding issues about the SkyTrain expansion: who will pay the start-up costs on the new Millennium line, and whether Bombardier Inc. should be contracted to operate and maintain the system (both existing and expansion lines).

However, despite these differences of opinion, both parties are proceeding with necessary work on the SkyTrain expansion. Construction of the first stage of expansion—the Millennium line—is very close to schedule and budget, as are preparations for start-up of the first part of the line. Planning and other preparatory work for subsequent phases of the SkyTrain expansion are proceeding at a reasonable pace, and generally in accordance with the cost-sharing agreement between the Province and TransLink.

Trust and cooperation must be rebuilt

After examining these issues, I think it is time for the provincial government and TransLink to rebuild the trust and cooperation necessary to make regional transportation work. As a first step, the provincial government should follow through on its commitment to aid TransLink in efficiently collecting the revenue it needs for expansion. In doing this, the government should recognize that, through legislation, it has assigned to the TransLink and GVRD boards of directors a range of revenue sources and the right to make decisions about which of these revenue sources TransLink will use. In turn, those boards of directors are publicly accountable for their decisions.

After that first step, I believe the other outstanding issues can be resolved between the parties. In particular, I recommend:

- The principles proposed by a consultant to the Province should be adopted as the basis for determining a reasonable allocation of start-up costs.
- The question of who should operate and maintain the SkyTrain system rests with the Province and should be approached with a focus on ensuring that the taxpayer receives good value for money.

If the parties are unable to reach agreement on these issues, they can make use of the arbitration provisions in their cost-sharing agreement.

The governance structure needs a number of improvements to promote good governance, accountability and decision-making

I believe that the provincial government, the GVRD and TransLink should review the governance structure now in place for regional transportation, and evaluate whether it is suitable for the long term. The need for adjustments to the governance structure should not be

surprising. TransLink started its operations little more than two years ago; its governance structure is complex; and the issues it deals with are not always easy to resolve.

In my opinion, changes to the current governance arrangements would be beneficial. My recommendations to the three parties can be summarized as follows:

The provincial government should:

- Recognize that the purpose of creating TransLink is to transfer responsibility for regional transportation to the region.
- Determine the best way to maintain oversight of TransLink activities, as they affect provincial interests.

The GVRD should:

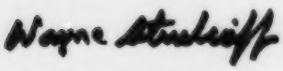
- Recognize that it controls TransLink and is directly responsible for its success.
- Adopt a sound method of appointing people to TransLink's board.
- Report to the public on its accountability for TransLink.

TransLink should:

- Establish and document the governance rules, accountability methods, and performance evaluation processes to be used by TransLink and its subsidiaries.
- Report more completely on how it fulfills its responsibility for managing the transportation system in Greater Vancouver.

The findings and conclusions presented in this report are based on evidence gathered to mid-June 2001. My staff performed this review in accordance with our Office's professional standards. These standards require us to carry out such tests and procedures as we consider necessary to obtain sufficient evidence to support our conclusions. In gathering this evidence, we reviewed documents prepared by the provincial government, Rapid Transit Project 2000 Ltd. (the provincially owned company undertaking the SkyTrain expansion project), the GVRD, TransLink and its subsidiaries. We also interviewed board members, employees and consultants of these organizations.

This review involved a number of organizations and individuals, all of whom provided us with the information and explanations we required to complete our work. I acknowledge and thank them for their cooperation.



Wayne K. Strelioff, CA
Auditor General

Victoria, British Columbia
August 2001

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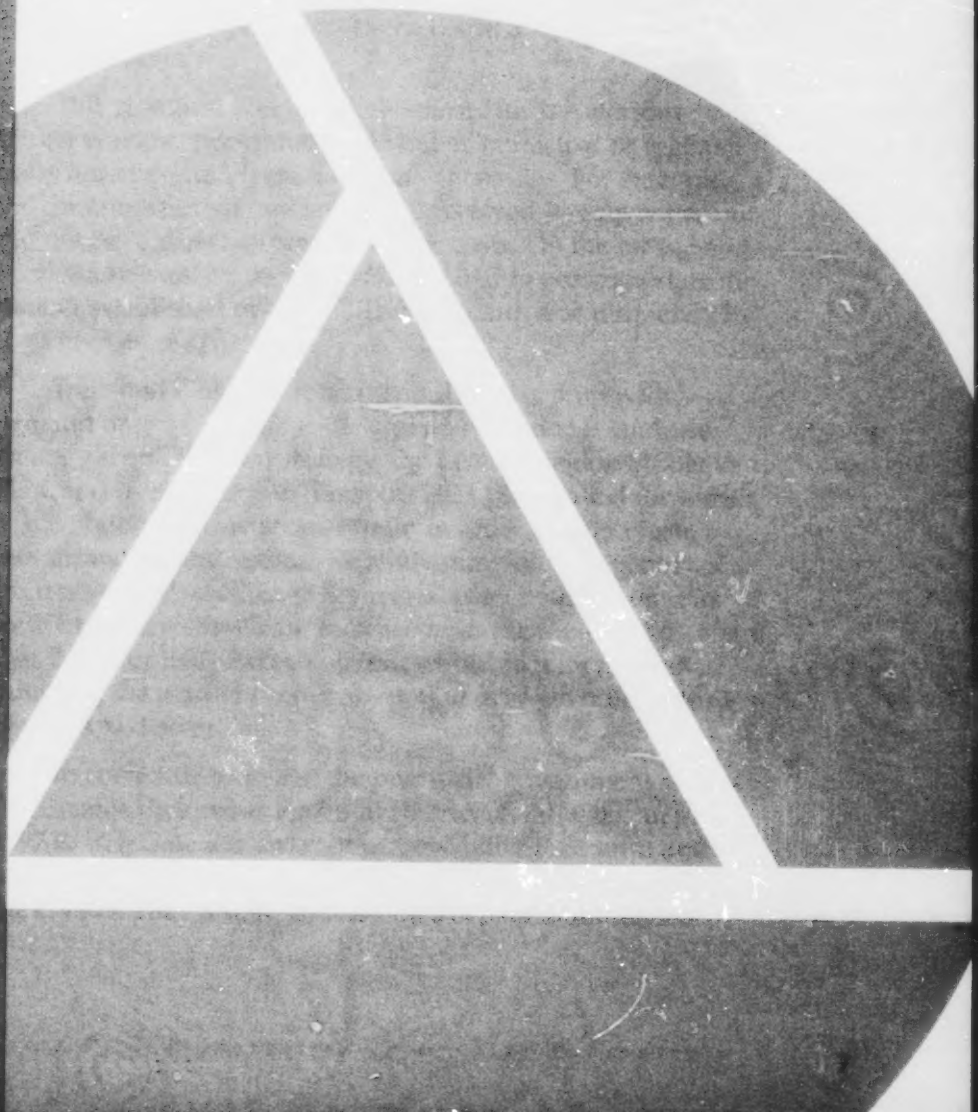
background: In 1999, transportation services in greater vancouver were reorganized to provide local control and more service



background: In 1999, transportation services in greater vancouver were reorganized to provide local control and more service

Before 1999, transit in Greater Vancouver was provided by BC Transit. This provincial Crown corporation was responsible for planning, marketing and operating three different transit systems: the Vancouver region, the Victoria region and the so-called "municipal" systems serving 42 smaller communities in the province.

BC Transit was governed by a board of directors appointed by the provincial government. The board set policy and annual budgets. There were also two regional transit commissions, one for greater Vancouver and one for greater Victoria, which set fares and service levels for their respective areas and made recommendations to the board about operating and capital budgets.

This structure was unusual—most North American transit systems report directly to either municipal or regional governments—and it created some anomalies. For example, the commissions set fare levels and received fare revenues but did not have direct responsibility for costs. On the other hand, service levels set by the commissions had to accommodate the budget established by the BC Transit board, and ultimately by the Province.

Transit in Greater Vancouver did not keep up with demand or grow as fast as the agreed-on regional land use strategy required. That strategy, the Livable Region Strategic Plan, and its component Transport 2021 plan, called for transit in the region to grow substantially, in order to help create a less sprawling and less car-dependent region. The goal was for transit to achieve an 18% share of peak hour commuters by 2021, a very significant increase from the roughly 12% share that it had in 1995. Achieving that would require more than doubling the market share growth rate over what BC Transit planned to deliver.

To solve this problem, the provincial government and the Greater Vancouver Regional District (GVRD) began in 1997 to negotiate a transfer of responsibility for transit and other regional transportation services from the Province to the GVRD. They also negotiated on a separate but related

matter—the construction, by the provincial government, of new rapid transit lines in the region.

As a basis for estimating the financial impacts of the agreement being negotiated, the Province's and GVRD's negotiators agreed on a "mid-point scenario," a growth plan that lay midway between the transit growth projected in BC Transit's 10-year strategic plan and that required by Transport 2021. (The negotiators chose this mid-point scenario as the benchmark for negotiation because they considered BC Transit's planned growth to be insufficient. At the same time, they thought the level of growth required by Transport 2021 might not be feasible to implement in an efficient way in the first 10 years of a new agency's existence.) Each spending and revenue pattern considered during the deliberations was compared against the mid-point scenario using a computer model developed by BC Transit.

Negotiations proceeded in stages, each of which resulted in a document specifying important elements of the inception, powers and organization of a new agency, and of the SkyTrain expansion. These documents, which we refer to frequently in this report, are:

- *Recommended Agreement on Transportation Governance and Funding for Greater Vancouver,* October 25, 1997 (the "negotiators' agreement")
- *Memorandum of Understanding Between the Greater Vancouver Regional District and the Province of British Columbia,* June 18, 1998 (the "final agreement")
- *Greater Vancouver Transportation Authority Act* (the GVTA Act)
- *Negotiators' Agreement on Cost-Sharing and Construction of SkyTrain Extensions,* June 20, 1999 (the "negotiators' cost-sharing agreement")
- *SkyTrain Expansion Cost Sharing Agreement,* as of March 1, 2000 (the "cost-sharing agreement")

Exhibit 1 illustrates how the establishment of the new agency and the extension of the SkyTrain system have been intertwined.

Exhibit 1

This timeline shows how establishment of TransLink and extension of the SkyTrain system were intertwined

	Establishment of TransLink	Expansion of SkyTrain
1994	June: Transport 2021 Long Range Transportation Plan approved by Greater Vancouver Regional District (GVRD)	
1995		BC Transit's 10-Year Strategic Plan concludes that Broadway-Lougheed and New Westminster-Coquitlam lines are highest-priority rapid transit routes
1996	January: Livable Region Strategic Plan adopted by GVRD	
1997	May: Province and GVRD agree to review/reform transit governance October: negotiators' agreement completed	December: rapid transit project office opens
1998	February: Province and GVRD ratify negotiators' agreement July: Greater Vancouver Transportation Authority Act receives Royal assent	February: Rapid Transit Project 2000 Ltd. (RTP 2000) incorporated by Province to plan, design and construct rapid transit project June: memorandum of understanding signed between Province and Bombardier Inc.; RTP 2000 told by Province to build SkyTrain, not conventional light rail transit, by 2000-2001, not 2005-2008 November: cost-sharing negotiations begin December: preferred alignment report released
1999	April: Greater Vancouver Transportation Authority (TransLink) begins operation	June: negotiators' agreement on SkyTrain cost-sharing signed
2000		March: SkyTrain cost-sharing agreement signed
2001		December: first section of Millennium line due to enter revenue service

Source: Compiled by the Office of the Auditor General of British Columbia from various correspondence and public reports

Expectations about what service and financial results were to be achieved by the new transportation system were clear and agreed on

The provincial government and the GVRD made clear that the ultimate measure of performance for the reorganized transportation system was the success of the region's strategic land use plan. As the negotiators' agreement said, the overall objective was "to promote the development and implementation of transportation plans which meet the objectives of the Province ...and the Greater Vancouver Regional District...contained in ...the Livable Region Strategic Plan." Both parties also agreed that, to make the plan work, transit's ridership and market share would have to increase significantly.

Expectations about how results would be achieved were also clear, and agreed on

The negotiations resulted in a new agency, the Greater Vancouver Transportation Authority ("TransLink"), that would manage the region's transportation system, including public transit.

The Province and the GVRD agreed on three key points about how the new arrangements were to work:

- the region would have responsibility for managing its own transportation system, including transit;
- the transportation system would be integrated; and
- TransLink's success would hinge on it having secure, adequate and appropriate funding, specifically including the use of new revenue sources.

The provincial government committed to:

- providing continuing provincial funding for transit (through tax transfers), and cooperating with TransLink when it raised regional funding;
- taking responsibility for much of the transit system's existing infrastructure debt; and
- expanding SkyTrain.

The GVRD committed to:

- taking responsibility for the integrated management of transportation;
- expanding transit, with funding from local sources for a substantial part of its operation and expansion; and
- cooperating with the provincial government's SkyTrain expansion.

TransLink is responsible for the delivery of a range of regional transportation services

TransLink's mandate is to plan, finance and operate a regional transportation system that moves people and goods efficiently and supports the regional growth strategy, air quality objectives and economic development of the GVRD.

TransLink oversees the planning, service levels, budgets and financing of several subsidiary companies and contractors. These subsidiaries and contractors are responsible for operations such as staffing, maintenance and scheduling.

TransLink provides most of its services through subsidiary companies:

- Coast Mountain Bus Company Ltd. (operator of the bus and trolley-bus system and SeaBus);
- British Columbia Rapid Transit Company Ltd. (operator of SkyTrain);
- West Coast Express Ltd. (operator of the commuter rail service of the same name);
- Fraser River Marine Transportation Ltd. (operator of the Albion Ferry);
- Pacific Vehicle Testing Technologies Ltd. (managers of AirCare);
- Transportation Property and Casualty Company Inc. (provides insurance liability coverage for TransLink); and
- 592040 BC Ltd. (called Intelligent Transportation Systems; develops ways of using information technology to make transportation systems more cost-effective),

or through contractors, who provide the following services:

- HandyDART
- Community Bus on Bowen Island and in North Burnaby.

In addition, it directly provides the following services:

- Transportation Demand Management—TransLink develops trip reduction programs and promotes transportation alternatives such as cycling and carpooling.
- Major Road Network—In partnership with municipalities, TransLink helps fund the maintenance, rehabilitation and improvement of the "major road network"—2,100 lane kilometres of roadways within the GVRD—plus the Knight Street, Pattullo and Westham Island bridges.

The scale of TransLink's operations can be seen from the following operating statistics for 2000:

Revenue passengers carried	129,113,441
Service hours transit vehicles were carrying passengers	4,326,074
Service kilometres driven by transit vehicles	97,848, 081
Revenue vehicles in service	1,306

A provincially owned company is undertaking the SkyTrain expansion project

The provincial government set up Rapid Transit Project 2000 Ltd. ("RTP 2000") in 1998, to take charge of planning, designing and constructing new light rapid transit lines in Greater Vancouver. After a technical analysis conducted by consultants to RTP 2000, the Province decided that it would build the lines using SkyTrain, a proprietary technology owned by Bombardier Inc.

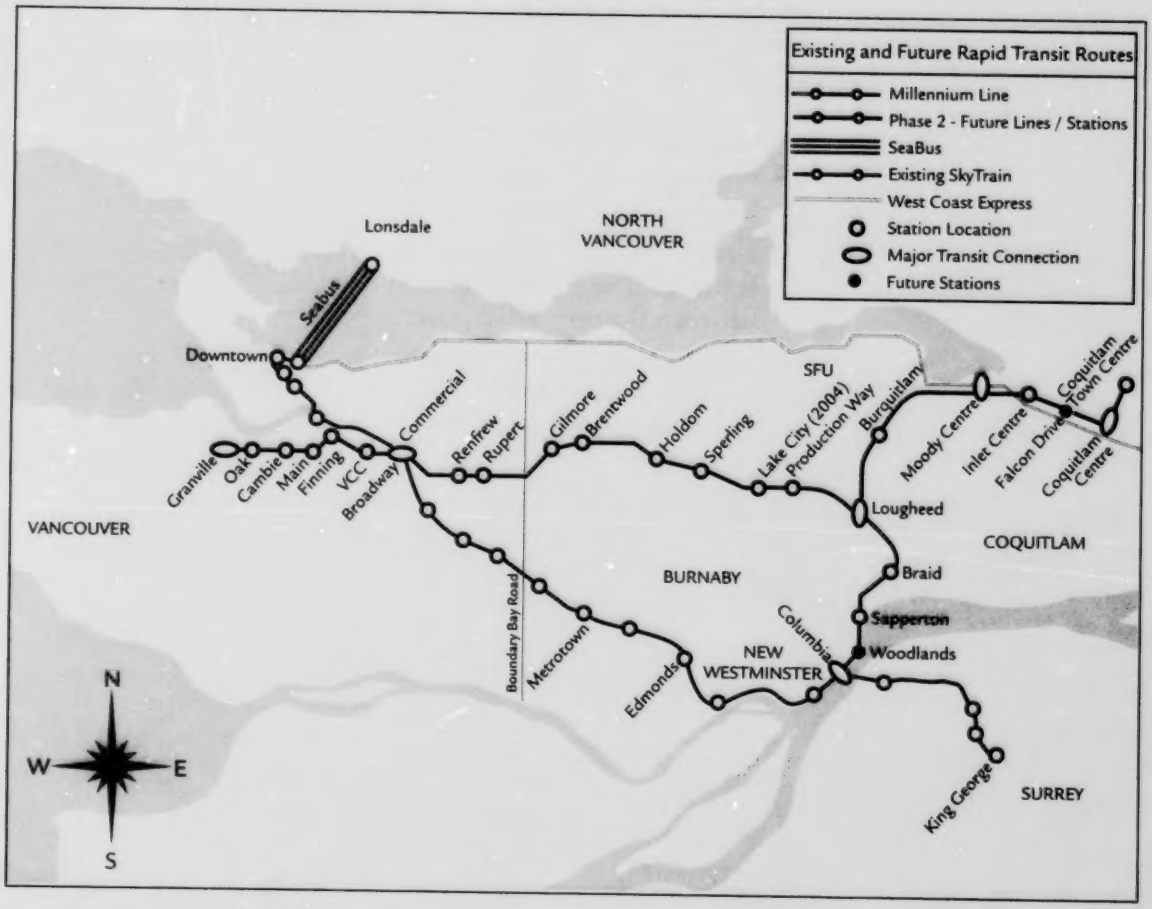
The Province and TransLink have negotiated a cost-sharing agreement for the SkyTrain expansion which calls for it to take place in three phases. The first phase, the Millennium line, with a forecast cost of $1.17 billion, is being built from Columbia Station via Lougheed Mall to a location near Vancouver Community College. The second phase, the Coquitlam line, with a preliminary estimate of $730 million, will run from Lougheed Mall to Coquitlam Centre. The Province is paying the expenses incurred in constructing these two phases. When the two phases are complete (or on December 31, 2005, if both phases are completed earlier), under the agreement TransLink will pay the Province $650 million as its share of these costs.

The third phase, the Western line, will run via the False Creek Flats and then down the Broadway corridor from Vancouver Community College to a western terminus somewhere between Granville and Cambie streets. The construction cost of this phase will be borne 33% by TransLink and 67% by the Province, if there is agreement on the end point.

Exhibit 2 shows the location of these new lines in relation to the existing SkyTrain line.

Exhibit 2

The Millennium line will extend the existing SkyTrain system, and two further extensions are planned



Source: TransLink and Rapid Transit Project 2000 Ltd.

This Report: Three Questions We Set Out to Answer

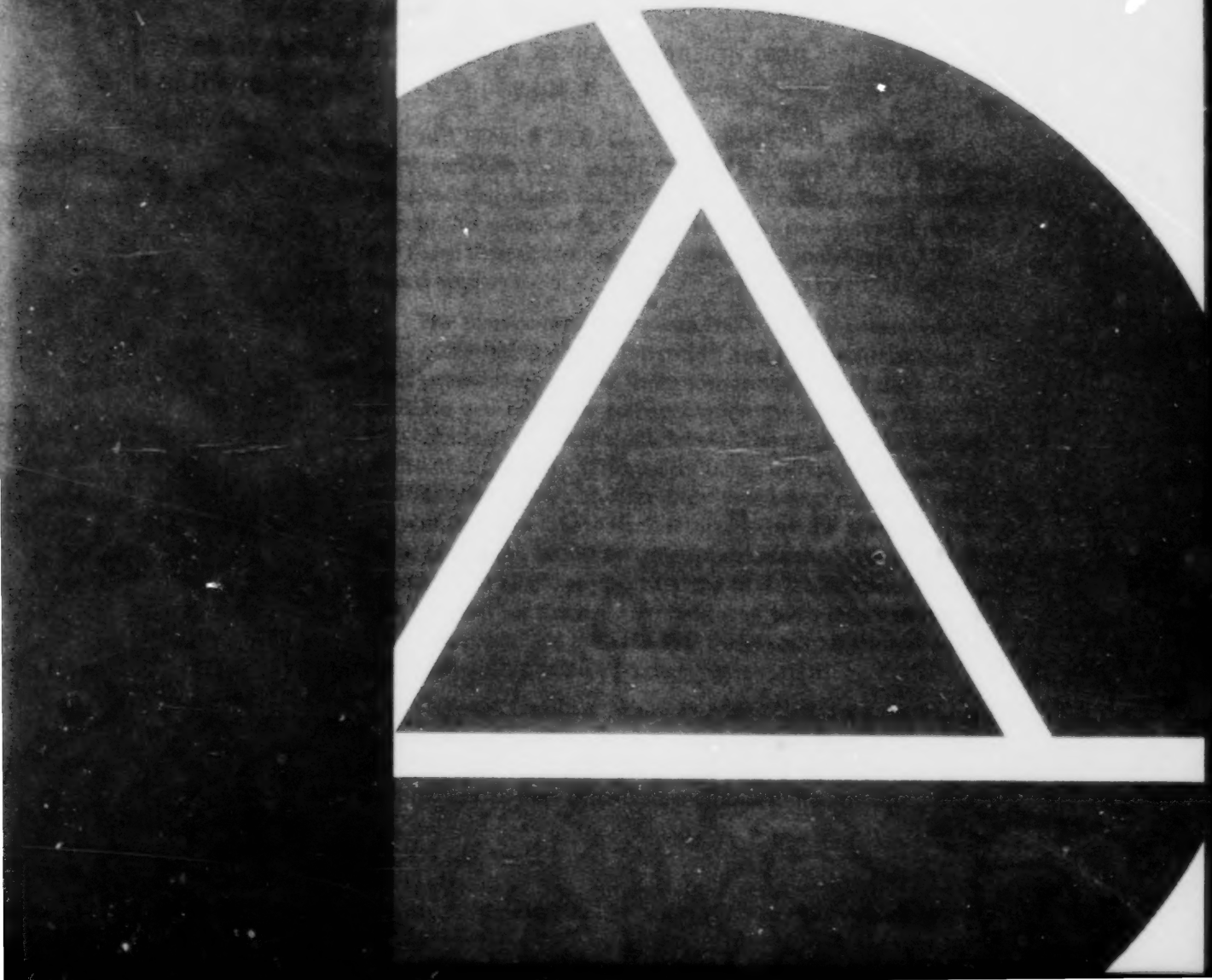
In Part I of this report, we examine whether service and financial expectations for regional transit are being met.

In Part II, we examine whether rapid transit (SkyTrain) expansion in Greater Vancouver will occur as planned and, in particular:

- whether the steps necessary to bring the first phase of the expansion into revenue service are being taken;
- how the start-up costs of the expansion should be allocated between the provincial government and TransLink; and
- whether planning for subsequent phases of the expansion is proceeding as contemplated in the cost-sharing agreement between the provincial government and TransLink.

In Part III, we examine whether the governance structure now in place promotes good governance, accountability and decision-making.

part i:
are service and financial expectations for regional transit being met?



part i: are service and financial expectations for regional transit being met?

The service and financial expectations set out in TransLink's Strategic Transportation Plan are not at this time being met, because TransLink has been unable to raise the extra revenue required to do so. To collect that revenue, TransLink needs the support of the provincial government, support the government initially gave but later rescinded.

In response, TransLink proposed alternative ways of raising the required extra revenue from transportation-related sources. Each alternative required provincial support, but the Province declined to give it. TransLink has therefore stopped its service growth and reduced its recently expanded service to avoid running a deficit (which it is not permitted to do).

TransLink obtained approval of a service expansion plan and of the revenue sources to pay for it

In 1999 and 2000, TransLink developed a strategic transportation plan, as required by the GVTA Act. It followed the procedures laid out in the Act, first conducting extensive public and stakeholder consultations to develop and refine the plan, then obtaining both TransLink board and GVRD board approval.

The plan covered the years 2000–2005. It was developed after consultations with the public and stakeholders about their preferences among three scenarios for the future. One scenario was based on transportation investments continuing to be made at pre-TransLink levels. The second was similar to the mid-point scenario used during the negotiations to establish TransLink, and the third was based on more rapid growth, more in line with that implied by the region's strategic plan. TransLink found broad support for the second and third scenarios and little support for the first. It also concluded there was support for the need for new revenue sources to improve the system, and for the idea that these sources should be transportation-related (the user-pay concept).

The plan finally adopted included increased investment in both regional roads and regional transit. The road investment, which would be in addition to the yearly maintenance grant to municipalities that TransLink includes in its operating budget,

would be for both minor capital improvements and major additions to the road network. (Major additions would be developed and paid for in partnership with other levels of government and other stakeholders.)

The plan's proposed transit improvements, which customer research suggested would get the most people to use transit, focused on:

- more "B-Line" services (dedicated buses running frequently along routes modified to encourage speedy transit by use of bus-only lanes and traffic-light priority for buses);
- more direct service linking town centres;
- minibus service in neighbourhoods, connecting to main transit lines;
- more frequent service on existing routes (which research showed is a key determinant to attracting more transit users); and
- more buses on existing routes, to reduce crowding and offset the reduced seating capacity of newer buses.

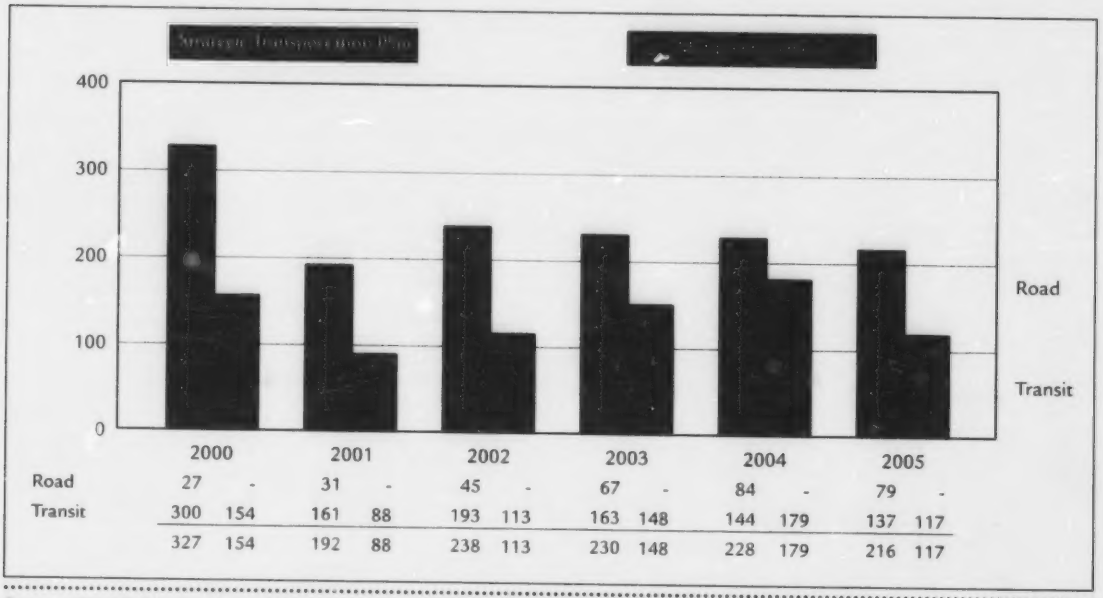
It was expected that the plan would result in ridership growth lower than that called for in the region's approved Transport 2021 plan, but similar to that in the mid-point scenario. (For example, the mid-point scenario projected 163–169 million revenue rides in 2005, while the strategic plan expected between 153 and 164 million in the same year, depending on the effect of a proposed fare increase.)

Carrying more riders would require more capital investment—in buses, other transit vehicles, and transit depots—and thus lead to higher yearly debt servicing costs. The capital investment proposed in the plan differed in two ways from that contemplated in the mid-point scenario. First, the scenario had not included regular capital spending on roads. Second, the spending on transit vehicles and facilities occurred earlier than in the mid-point scenario. The effect of these differences can be seen in Exhibit 3.

Many of the services added in the strategic plan were new and required development of their markets before they would be fully utilized. Others would be serving areas of lower density, and thus would attract fewer riders than existing routes in urban centres. As a result, the plan called for more service hours (the number of hours a transit vehicle is in service, available to carry passengers) than the mid-point scenario did (Exhibit 4).

Exhibit 3

TransLink's Strategic Transportation Plan included more capital expenditures than did the mid-point scenario *($ Millions)*

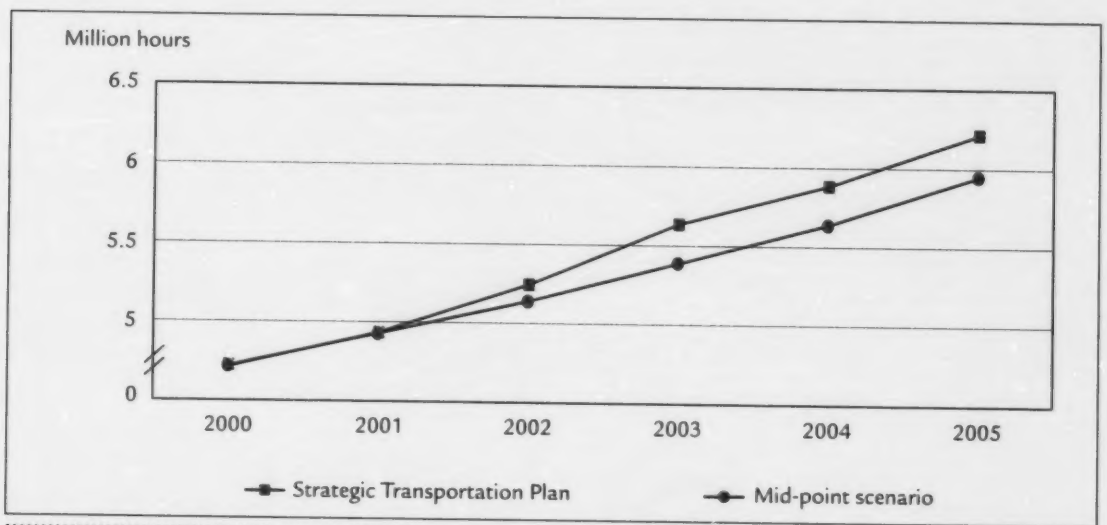


	2000		2001		2002		2003		2004		2005	
Road	27	-	31	-	45	-	67	-	84	-	79	-
Transit	300	154	161	88	193	113	163	148	144	179	137	117
	327	154	192	88	238	113	230	148	228	179	216	117

Source: Compiled by the Office of the Auditor General of British Columbia using information from:
- *Strategic Transportation Plan: Appendices*, April 2000, TransLink
- *Financial Implications of the Recommended Agreement on Transportation Governance and Funding for Greater Vancouver*, January 1988, Greater Vancouver Regional District
- *Mid-Point Scenario (2009 Planning & Funding Scenario for GVTA)*, March 1998, BC Transit

Exhibit 4

The Strategic Transportation Plan called for more service hours than did the mid-point scenario



Source: Compiled by the Office of the Auditor General of British Columbia using information from:
- *Strategic Transportation Plan: Appendices*, April 2000, TransLink
- *Mid-Point Scenario (2009 Planning & Funding Scenario for GVTA)*, March 1998, BC Transit

More capital investment translates into more debt repayment cost, and more service hours translates into higher operating costs, so total expenses would increase under the plan. Accordingly, the plan also included revenue increases to pay for the improvements (Exhibit 5).

In the plan, TransLink explained how it chose from the wide range of revenue sources available to it under the GVTA Act (Exhibit 6). These sources are transit fares, fuel tax, property tax, BC Hydro levy, parking tax, vehicle levy, profits from sale or lease of assets, benefiting area charges (charges against property benefiting from specific infrastructure improvements), and project tolls (charges on specific TransLink-owned or -supported transportation facilities).

When choosing revenue sources, TransLink's focused on the strategic reason it was set up: namely, to contribute to the success of the region's land use plan. "To the maximum extent practical and equitable," the plan stated, "TransLink should raise the revenues required in ways that shape

Exhibit 6

Revenue options available to TransLink *($ Millions)*

Source	Budgeted revenue in 2001
Transit fares and transit advertising	224
Fuel tax	181
Property tax	93
Hydro levy	16
Parking tax and miscellaneous	10
Vehicle levy	Not in use
Benefiting area charges[1]	Not in use
Profits from lease or sale of assets	Minimal
Project tolls[2]	Not in use
System tolling, road pricing, etc.	Not included in permitted revenue sources at present in legislation

[1]charges against property benefiting from specific infrastructure improvements
[2]tolls on specific new TransLink-owned or supported facilities

Source: Compiled by the Office of the Auditor General of British Columbia using information from:

- "2001 Final Budget," 9 March 2001, TransLink.
- "Recommended Agreement on Transportation Governance and Funding for Greater Vancouver: Background Report," 23 December 1997, B. Lingwood & P. Cameron (Negotiators for the Province of British Columbia) and M. Shaffer (Negotiator for the Greater Vancouver Regional District).
- Greater Vancouver Transportation Authority Act.

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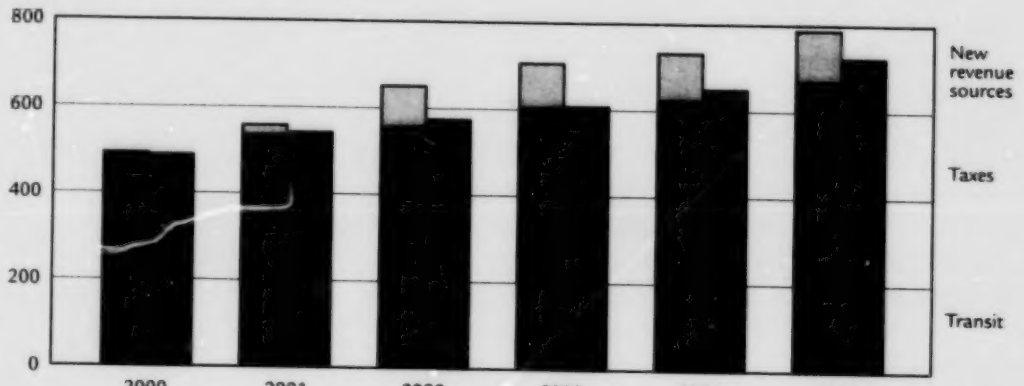
Source: Compiled by the Office of the Auditor General of British Columbia using information from:

- "2001 Final Budget," 9 March 2001, TransLink
- "Recommended Agreement on Transportation Governance and Funding for Greater Vancouver: Background Report," 23 December 1997, B. Lingwood & P. Cameron (Negotiators for the Province of British Columbia) and M. Shaffer (Negotiator for the Greater Vancouver Regional District)
- Greater Vancouver Transportation Authority Act

Exhibit 5

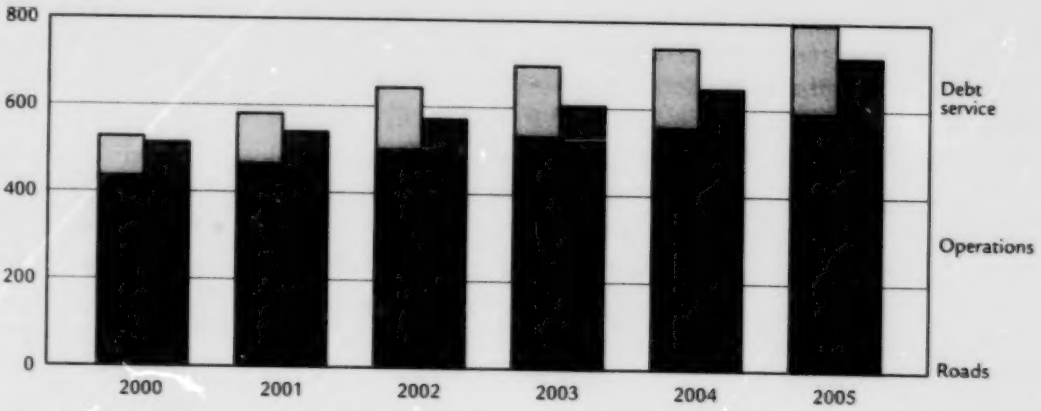
The Strategic Transportation Plan called for higher revenues and expenses than did the mid-point scenario *($ Millions)*

Revenues



	2000		2001		2002		2003		2004		2005	
New revenue sources	-	-	23	20	95	35	102	40	109	63	117	106
Taxes	291	285	315	312	327	318	341	335	351	341	388	358
Transit	201	203	220	210	229	221	264	233	273	246	284	260
	492	488	558	542	651	574	707	608	733	650	789	724

Expenses



	2000		2001		2002		2003		2004		2005	
Debt service	91	94	115	98	142	106	163	113	182	128	203	162
Operations	405	391	428	413	466	437	498	463	522	490	558	529
Roads	28	29	35	30	32	30	32	31	32	31	32	32
	524	514	578	541	640	573	693	607	736	649	793	723

Source: Compiled by the Office of the Auditor General of British Columbia using information from:

- *Strategic Transportation Plan: Appendices*, April 2000, TransLink
- *Financial Implications of the Recommended Agreement on Transportation Governance and Funding for Greater Vancouver*, January 1988, Greater Vancouver Regional District

transportation demand. From this perspective, the 'best' sources of revenues are those directly associated with use of the transportation system."

To shape transportation demand, TransLink concluded that tools such as "system tolling" or road-pricing are the best choices for pricing infrastructure, raising revenues and managing peak period road use. (These tools would allow variable rates for road use, reflecting, for example, the congestion costs generated by each additional rush-hour driver.) Surveys indicated that such tools also had public support. However, the GVTA Act did not give TransLink the authority to "system toll." TransLink would have to work with the provincial government to obtain amendments to the Act before it could raise revenues in this way.

TransLink receives a portion of its revenues from property taxes—as do most transit operations in North America. It rejected the option of raising more revenue from this source, both because it felt property taxes did not relate to transportation use and because regional and municipal governments were opposed to its use.

Ultimately, TransLink decided that, for the five years covered by its strategic plan, it had only two viable sources of further revenue that were compatible with its strategic focus —increased transit fares and a vehicle levy. (The recommended vehicle levy was to average $75 per vehicle per year, collecting about $100 million annually. Proposed implementation was not until October 1, 2001, or later.) Two other revenue sources—parking charges, and tolls or benefiting property charges on new transportation projects—faced implementation obstacles that meant they would not be useful during the period.

TransLink raised its transit fares as planned. The vehicle levy was controversial, but in the end the boards of directors of TransLink and the GVRD, exercising the responsibilities given to them under the GVTA Act, decided to implement the levy.

TransLink considered that the most effective method of assessing and collecting the levy was to do so as part of annual vehicle registration through the Insurance Corporation of British Columbia (ICBC). TransLink believed that it had the Province's support for this method of assessing and collecting the levy.

After initially agreeing to support TransLink's vehicle levy, the Province later chose not to do so

From the first, both the Province and the GVRD had seen vehicle levies as a likely source of funding for TransLink, and had given thought as to how such levies could be efficiently and equitably collected. For example, when the negotiations to create TransLink were completed, the Province's and the GVRD's negotiators jointly issued a background report explaining the recommended agreement. In it, they emphasized that in order to meet its goals, the proposed transit authority would need new sources of income, including specifically "the power to levy charges on vehicles in accordance with criteria... established by the Authority." They also gave thought to how the levy could be collected, commenting that the "transfer of responsibility for AirCare... will provide the Authority with a comprehensive registry of vehicles which it can use to levy vehicle charges." (It was later found that collection of the levy through AirCare would be very difficult.)

This thinking was carried into the Province's GVTA Act, which both allowed TransLink to levy the charge—

"The authority may ... assess motor vehicle charges on any owner or operator of a motor vehicle that is principally used in the transportation service region or that uses all or any designated part of the regional transportation system"

—and described how the Province might assist in collecting it—

"the Lieutenant Governor in Council may make... regulations on the recommendation of the authority... requiring the payment of ... motor vehicle charges and respecting their collection and enforcement."

In June 1999, the Province and TransLink signed the "negotiator's agreement" on SkyTrain cost-sharing. The agreement contains two important provisions related to collection of the vehicle levy:

- "[Section] 30. The Province will in good faith make best efforts to ensure that ICBC will not provide insurance to automobile and small truck owners or operators required to have such insurance if a motor vehicle fee duly levied against the owners or operators by TransLink is not fully paid."

- "[Section] 31. The Province will support and facilitate in good faith discussions between ICBC and TransLink and make best efforts to ensure that ICBC will provide the capability for TransLink to issue separate bills for the motor vehicle levy."

While the final version of the cost-sharing agreement does not specify that the Province will ensure that ICBC helps collect the levy, we believe there is persuasive evidence that the Province did make a commitment to assist in collection:

- Although called a "negotiators' agreement," the document was in fact signed for the Province by the Minister of Finance and Minister Responsible for Transit, and by the chair of the board for TransLink.
- Provincial employees acted as if the negotiators' agreement did commit the government. For example, in July 1999, the president of the BC Transportation Financing Authority wrote to the president of ICBC arranging a meeting of staff who would be "assisting with implementation of sections 30 and 31 of the agreement." This work continued after the date at which the final agreement was deemed to have been reached (March 1, 2000): in May 2000, a committee of ICBC instructed staff to continue working with TransLink staff in developing options for the vehicle levy.

We conclude that the Province did give TransLink a commitment to support instituting a vehicle levy and collecting it in a cost-effective way. By the end of 2000, however, the Province had changed its mind and was no longer willing to provide the assistance TransLink needed to efficiently implement the levy.

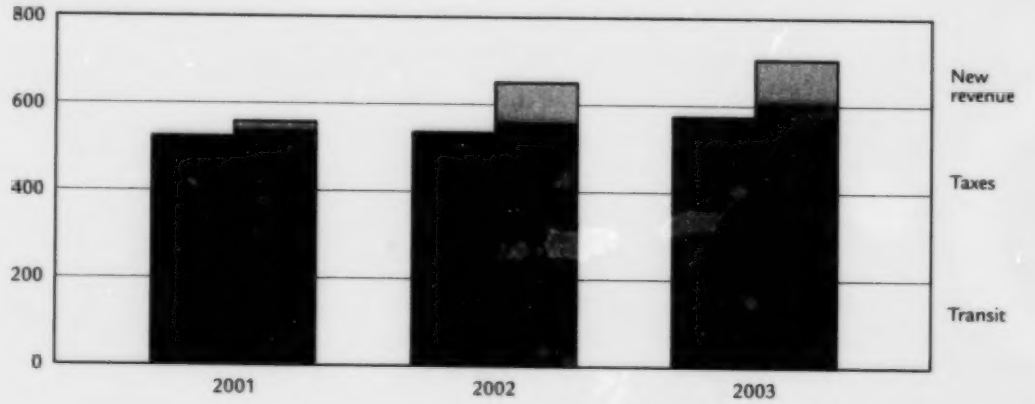
TransLink took action to avoid a deficit

Once it knew the Province would not help it collect the vehicle levy, TransLink considered alternatives (such as increasing the fuel tax, or directly assessing the levy itself and using enforcement by "ticketing"), but the Province was unwilling to support those revenue options as well. Facing reduced revenues, TransLink therefore had to scale back costs (Exhibit 7) since, under the GVTA Act, it must budget to spend no more in any year than its anticipated revenues plus its accumulated surplus.

Exhibit 7

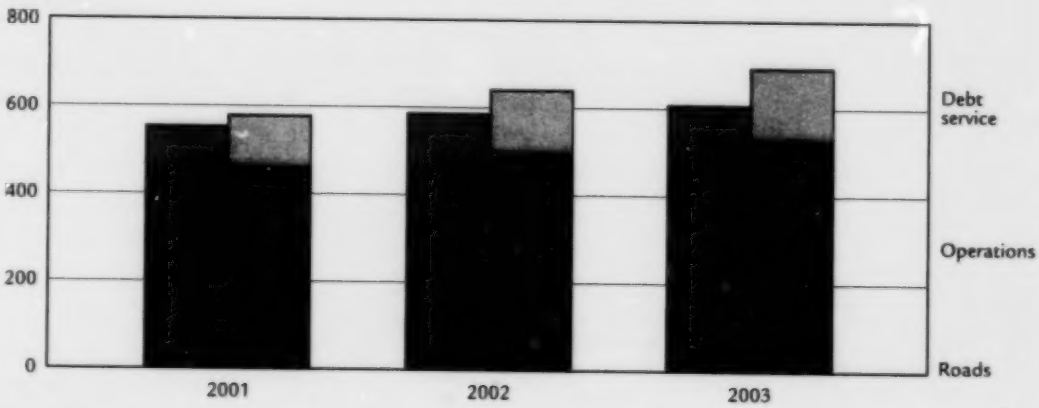
TransLink's current budget projects revenues and expenses lower than those in the Strategic Transportation Plan *($ Millions)*

Revenues



New revenue	-	23	-	95	-	102
Taxes	300	315	311	327	324	341
Transit	224	220	224	229	250	264
	524	558	535	651	574	707

Expenses



Debt service	97	115	129	142	143	163
Operations	432	428	434	466	442	498
Roads	24	35	23	32	23	32
	553	578	586	640	608	693

Source: Compiled by the Office of the Auditor General of British Columbia using information from:

- *Strategic Transportation Plan: Appendices*, April 2000, TransLink
- *2001 Final Budget*, March 9, 2001, TransLink

With its present revenue sources, TransLink expects to incur significant deficits in 2001 and the years following. Its accumulated surplus (reserve fund balance) will carry it through 2001 but not 2002 (Exhibit 8).

A consulting company confirmed for TransLink the reasonableness of the assumptions underlying its 2001 budget and forecasts for 2002 and 2003. We also concluded that the budget's revenue projections are consistent with those in the mid-point scenario's modelling of projected revenue if no new revenue sources were to be added.

In the short term, one of the main areas of expenditure that TransLink can control is capital purchases needed for future service growth. Here it has cut back significantly, reducing its approved or planned capital investments for 2001–2003 in order to balance its 2001 operating budget and reduce 2002–2003 forecast costs (Exhibit 9). Such restraint-induced reductions diminish the likelihood that TransLink can increase its range of services, and thus meet its ridership and market share goals, and meet the goals of Transport 2021.

Without accessing revenue sources beyond those currently in use, TransLink predicts that it will not be able to maintain its service expansion, and will in fact be forced to reduce its service hours.

The provincial government believes that TransLink is obligated to start operating the Millennium line as soon as the line, or a portion of it, is available. TransLink's Strategic Transportation Plan indicated that it would operate the SkyTrain extensions. However, TransLink says that it cannot at present afford to operate the Millennium line, because the provincial government did not support the vehicle levy. Its 2001 business plan states that "lack of funding has resulted in the deferral of service on the SkyTrain extension."

TransLink was established with the strategic purpose of transferring responsibility for the transportation system to the region, and of expanding transit services in the region. TransLink followed the steps required by its Act to develop a strategic plan and funding strategy for growth, including consulting the public and receiving approval from both its own board and the GVRD's board. The Province, through legislation, provided Translink with certain ways to raise revenue, and agreed to provide it with an efficient way to collect the new revenue it required to carry out its strategic plan and deliver expanded services. Without the Province's help now forthcoming, TransLink will not be able to do so.

Recommendation:

The Province should follow through on its commitment to help TransLink efficiently collect the revenue it needs to maintain and expand its service levels.

Exhibit 8

TransLink projects a reserve fund deficit in 2002 *($ Millions)*

	2001	2002	2003
Reserve fund balance (deficit) at beginning of year	42	14	(37)
Plus: revenues	524	535	574
Less: expenses	553	586	608
Plus: one-time items	1	–	–
Reserve fund balance (deficit) at end of year	14	(37)	(71)

Source: Compiled by the Office of the Auditor General of British Columbia using information from Report on 2001 final budget, GVTA, March 9, 2001

Exhibit 9

TransLink has reduced its approved or planned capital investments for 2001–2003

Type of investment	Reduction ($ millions)
Buses	79
HandyDART vehicles	4
SkyTrain vehicles (2003–2004)	43
West Coast Express engine for sixth train	4
Transit depots and repair facilities	92
Road projects	45
Bicycle program	6
Other capital investments	22
Total	295

Source: Compiled by the Office of the Auditor General of British Columbia using information from Report on 2001 final budget, GVTA, March 9, 2001

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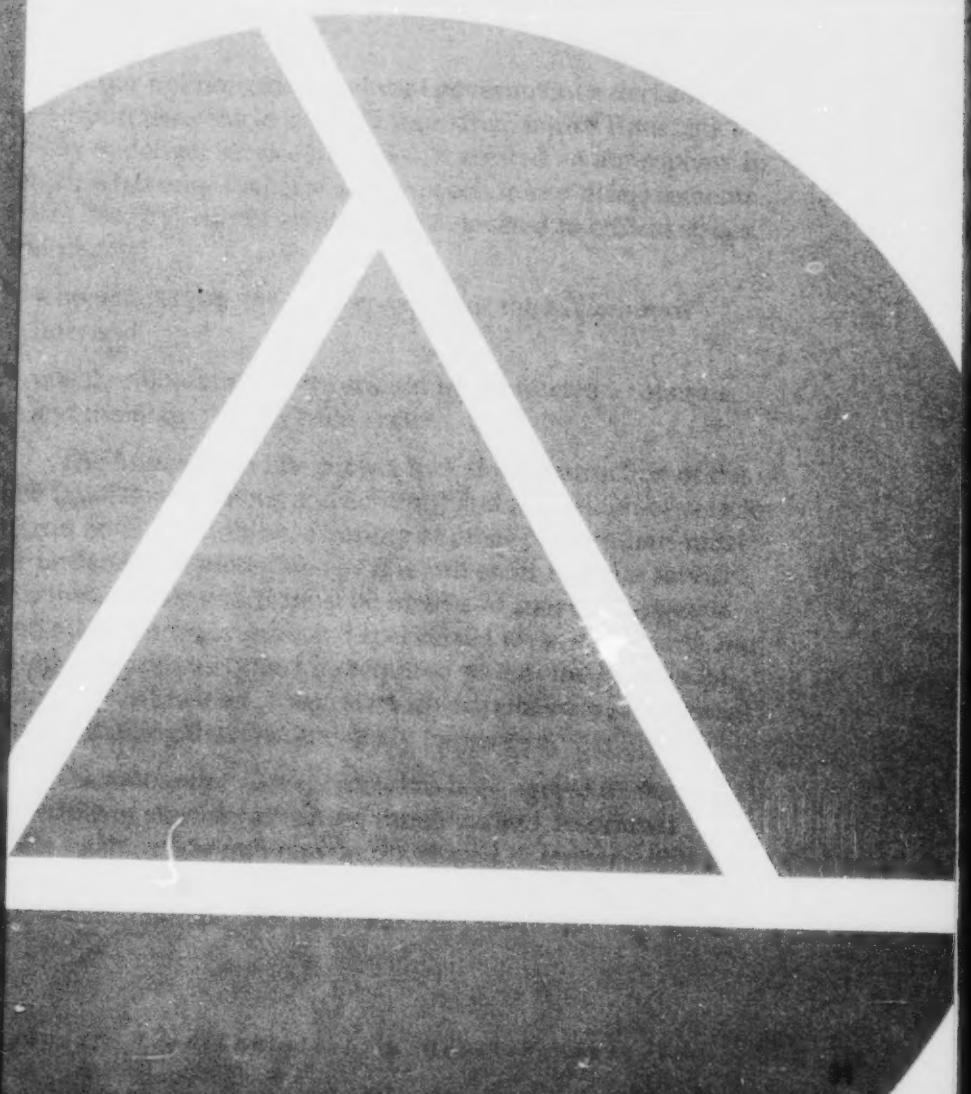
Transit depots and repair facilities	92
Road projects	45
Bicycle program	6
Other capital investments	28
Total	295

Source: Compiled by the Office of the Auditor General of British Columbia using information from Report on 2001 final budget, GVTA, March 9, 2001

part ii:
will rapid transit expansion in greater vancouver occur as planned?



part ii: will rapid transit expansion in greater vancouver occur as planned?

In general, rapid transit (SkyTrain) expansion in Greater Vancouver is occurring as planned. Construction of the first stage of expansion—the Millennium line—is very close to schedule and budget, as are preparations for the start-up of the first part of the line. Preparatory work for other expansion lines is proceeding at a reasonable pace.

Nevertheless, the Province and TransLink have been unable to reach agreement on two outstanding issues about SkyTrain: who will pay for start-up costs for the Millennium line, and whether Bombardier Inc. should be contracted to operate and maintain the system (both existing and expansion lines).

Who should pay for the start-up costs of the Millennium line is still in dispute

In our opinion, the provincial government's decision not to support the vehicle levy did more than injure TransLink's ability to deliver service increases. It created an atmosphere in which what might otherwise have been minor disagreements about the SkyTrain extensions were elevated to critical issues, specifically:

- who should pay the start-up costs for the Millennium line; and
- whether Bombardier Inc. should be contracted to operate and maintain the SkyTrain system.

The Millennium line project includes construction of the line (guideway, stations and controls) and acquisition of vehicles to run on it. In addition, a variety of other preparations must be undertaken before the new line can enter revenue service. For instance, new staff must be hired and trained to operate and maintain the system; and specialized tools, spare parts and support equipment must be acquired so that the line can be properly maintained. These start-up activities are an essential part of making the new line ready for service.

The amount of start-up costs has been agreed to. A detailed schedule of start-up activities, timelines and associated costs totalling $26 million was developed in January 2001 by British Columbia Rapid Transit Company Ltd., the TransLink subsidiary that operates SkyTrain. All parties have reviewed

this schedule, and none has expressed serious reservations about the need for the activities and purchases or the costs associated with them.

The provincial government is advancing $9.7 million to pay for the most immediate start-up activities so that debate over who will pay does not delay the opening of the first section of the Millennium line.

The cost-sharing agreement specifies who is to pay for building the line and purchasing vehicles, but is silent on start-up costs. The provincial government's view is that start-up preparations are operating costs and should be borne by the operator—British Columbia Rapid Transit Company Ltd. TransLink sees these activities as part of construction of the line, and therefore believes that their cost should be borne by the provincial government.

In an effort to resolve the issue of who should pay, the Province hired a consultant—an engineer with significant senior transportation management experience—to examine the costs and recommend an appropriate allocation.

The consultant's report sets out five start-up cost allocation principles, based largely on two recent transit projects in Toronto and Calgary. These principles assign responsibility for such costs as training, tools, manuals, spare parts and contingencies. At the time the consultant's study was conducted, the start-up cost estimate was $24.5 million, which the study recommended be allocated as follows:

- $9.7 million, of a capital nature, to be assigned to the project and paid for by the Province;
- $2.6 million, related to the vehicle contract, to be assigned to the Province; and,
- $12.2 million, of an operating nature, to be paid for by TransLink or its subsidiary.

The principles proposed by the consultant are, we believe, reasonable, and consistent with generally accepted accounting principles. In our opinion, they represent a valid basis for a settlement.

The cost-sharing agreement makes provision for settling disagreements through negotiation and arbitration: "[A]ll disputes or claims arising out of or relating to this Agreement or its interpretation shall be resolved directly between the parties, failing which the matter shall be determined by arbitration."

TransLink initially sought to negotiate the issue, but the provincial government declined to do so. It suggested that, because start-up costs are not specified in the cost-sharing agreement, resolution of the issue lies outside the contractual relationship and it would be inappropriate to negotiate the issue or refer it to arbitration.

Recommendation:

The Province and TransLink should use the start-up cost allocation principles proposed by the Province's consultant. If they are unable to reach timely agreement on the allocation of start-up costs, they should use the arbitration provisions set out in the cost-sharing agreement.

We noted that TransLink was not provided with the consultant's report until eight months after its completion, even though the cost-sharing agreement states that both parties will "disclose all information which only one of them may have to the other where that information may be of interest or use to the other party for the timely construction of the New System."

Recommendation:

The Province should, in a timely fashion, share with TransLink all information that is relevant to the construction of the SkyTrain expansion.

Who will operate and maintain the SkyTrain system has not yet been settled

In June 1998, the provincial government signed a memorandum of understanding with Bombardier Inc. to have the company provide long-term operation and maintenance of the new SkyTrain systems being planned for Greater Vancouver. Bombardier, in return, undertook to establish a research and manufacturing facility in Greater Vancouver and create 165 full-time jobs for five years.

A subsequent agreement in October 1998 also required the provincial government and Bombardier to negotiate an operations and maintenance contract. It provided that, if the parties did not enter into a contract by a certain date, Bombardier would have the right to sell its facility to the provincial government at a price determined in accordance with the agreement.

The March 2000 cost-sharing agreement confirmed that TransLink was negotiating with Bombardier with a view to entering into an operations and maintenance agreement for all of SkyTrain (both the new lines and the existing system). This agreement made it clear that TransLink would not have to pay more to Bombardier than the cost would be for TransLink's subsidiary (British Columbia Rapid Transit Company Ltd.) to perform the same services itself. The agreement also provided for third-party review if the provincial government disagreed with TransLink's cost estimates.

By mid-2000, TransLink had told the provincial government that it would not likely be able to reach an agreement with Bombardier, and in late 2000 formally advised that it had been unable to do so. TransLink concluded that the cost of contracting operations and maintenance to Bombardier would be $4.5 million per year higher than the cost of having the work done by its subsidiary. A consulting firm hired by the provincial government substantially agreed with TransLink's analysis of the cost to operate the lines, but also determined that the Bombardier offer includes additional value by extending the warranties on existing equipment and by protecting TransLink from some increased input costs in the future.

The Province and TransLink have not yet settled their differences on this issue. (However, we noted that they have not yet exhausted the dispute resolution provisions of their cost-sharing agreement.)

In our opinion, the onus lies on the Province to resolve the issue. It has agreed that it and not TransLink will bear any extra costs that result from contracting with Bombardier to provide operations and maintenance. It also has information now on what those extra costs might be, and can compare them to the cost of pursuing other options. It should use this information to arrive at a solution that offers best value to taxpayers, both provincial and regional.

Recommendation:

The Province should analyze its options for dealing with its commitment to offer Bombardier Inc. a SkyTrain operating and maintenance contract, and work with TransLink to reach agreement on the option that offers best value for money to taxpayers.

Despite these disputes, it is likely that the first part of the Millennium line will go into operation very close to schedule

According to RTP 2000's detailed schedule, the first part of the Millennium line (the section from Columbia station to Braid station) will be completed, tested and ready to operate by late December 2001 or soon after. RTP 2000's forecast also shows the Millennium line overall is very close to its published $1.17 billion budget. The accuracy of these projections is regularly reviewed by an independent project management consultant.

Despite the debate about who should pay, TransLink, British Columbia Rapid Transit Company Ltd. and RTP 2000 have continued their preparations for the first part of the Millennium line to enter into revenue service on schedule.

Work continues on the other SkyTrain extension lines

The cost-sharing agreement calls for the provincial government and TransLink to negotiate the alignment, station locations, proposed work and estimated cost for the proposed Coquitlam line, and to consult with the municipalities through which the line is to run.

Planning the proposed Coquitlam line has not been an easy or swift process. The route passes through three municipalities —Burnaby, Coquitlam and Port Moody—each of which has been consulted extensively about track alignments, station locations and amenities. Preliminary studies have been thorough and well-documented. All of this work has taken time.

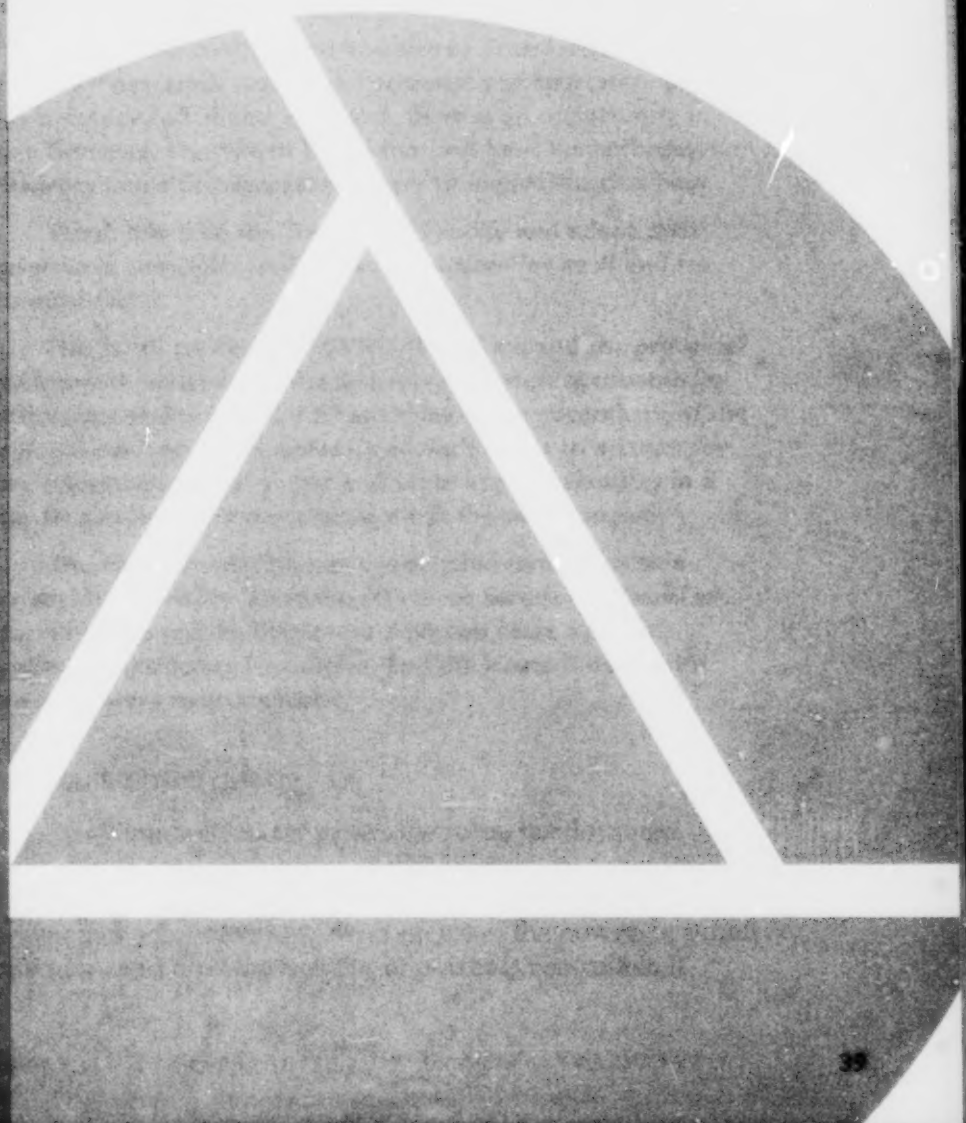
The provincial government views the rate of progress on the Coquitlam extension with some frustration. However, we believe it reflects the time needed to reach consensus among disparate interests. Progress continues and the project is moving steadily towards the preliminary design phase.

The proposed Western line lies entirely within the boundaries of the City of Vancouver. The cost-sharing agreement specifies that the provincial government and TransLink will, in consultation with the city, negotiate the end point of the proposed Western line. Negotiations for the alignment, station locations, works and estimated costs are to follow.

Vancouver has taken an active role during the preliminary study phase of the Western line along with the provincial government and TransLink. Although the end point of the line has not yet been chosen, a considerable amount of preparatory work has been done.

Overall, we concluded that progress on the proposed Coquitlam and Western extensions is reasonable, and that all parties appear to be complying with the intent of the agreements.

part iii:
does the governance structure promote good governance, accountability and decision-making?



part iii: does the governance structure promote good governance, accountability and decision-making?

Past work by this Office has shown that the way governance responsibilities are defined and discharged can significantly affect how well a public sector organization achieves its long-term goals. We applied the concepts used in our past work to a review of the governance environment established by the Greater Vancouver Transportation Authority Act for Greater Vancouver's regional transportation system. We concluded that changes are needed if the governance environment is to be fully effective.

First, overlaps in roles and responsibilities must be eliminated. The Province's role, in particular, is more intrusive than was agreed when TransLink was established.

Second, the composition and size of TransLink's board must be reassessed. Now that a strategic transportation plan has been developed and approved, there is an opportunity to give TransLink the type of board that will have the authority, efficiency and effectiveness necessary to implement that plan.

Third, it is time for TransLink to codify and adopt clear governance principles, policies and practices for itself and for its subsidiaries.

Finally, all parties—the GVRD, TransLink and the provincial government—must recognize and carry out their accountability obligations to the public. All have roles in the governance of the regional transportation system, and each needs to account for its performance to the public and other key stakeholders in a way that meets current expectations in the public sector.

The need for adjustments to the governance structure for regional transportation should not be surprising. TransLink started its operations little more than two years ago; its governance structure is complex; and the issues it deals with are not always easy to resolve.

Governance can be a difficult undertaking

"Governance" encompasses the roles, relationships, powers and accountability of shareholders, board members and management. It has been defined as having to do "with power and accountability—who exercises the power on behalf of whom, and how the exercise of power is controlled. It

involves complex webs of personal as well as institutional relationships." A number of organizations have developed principles for good governance. Generally included are:

- establishing clear roles and responsibilities;
- selecting board members according to defined criteria and board needs;
- establishing processes to allow a board to monitor how management implements the board's policies;
- establishing processes to monitor the effectiveness of boards and board members; and
- establishing an appropriate accountability regime for the entity.

These principles are as relevant to the public as to the private sector, and to both elected and appointed public bodies. However, governance is typically more complex in the public than the private sector. It may involve more than one level of government, or enterprises owned or controlled by a government authority. Roles, responsibilities and accountabilities can become clouded.

Our review was based on principles accepted as appropriate for public sector entities. It focused on TransLink but also included a review of how the GVRD and the provincial government fulfill their responsibilities in the governing of the region's transportation system.

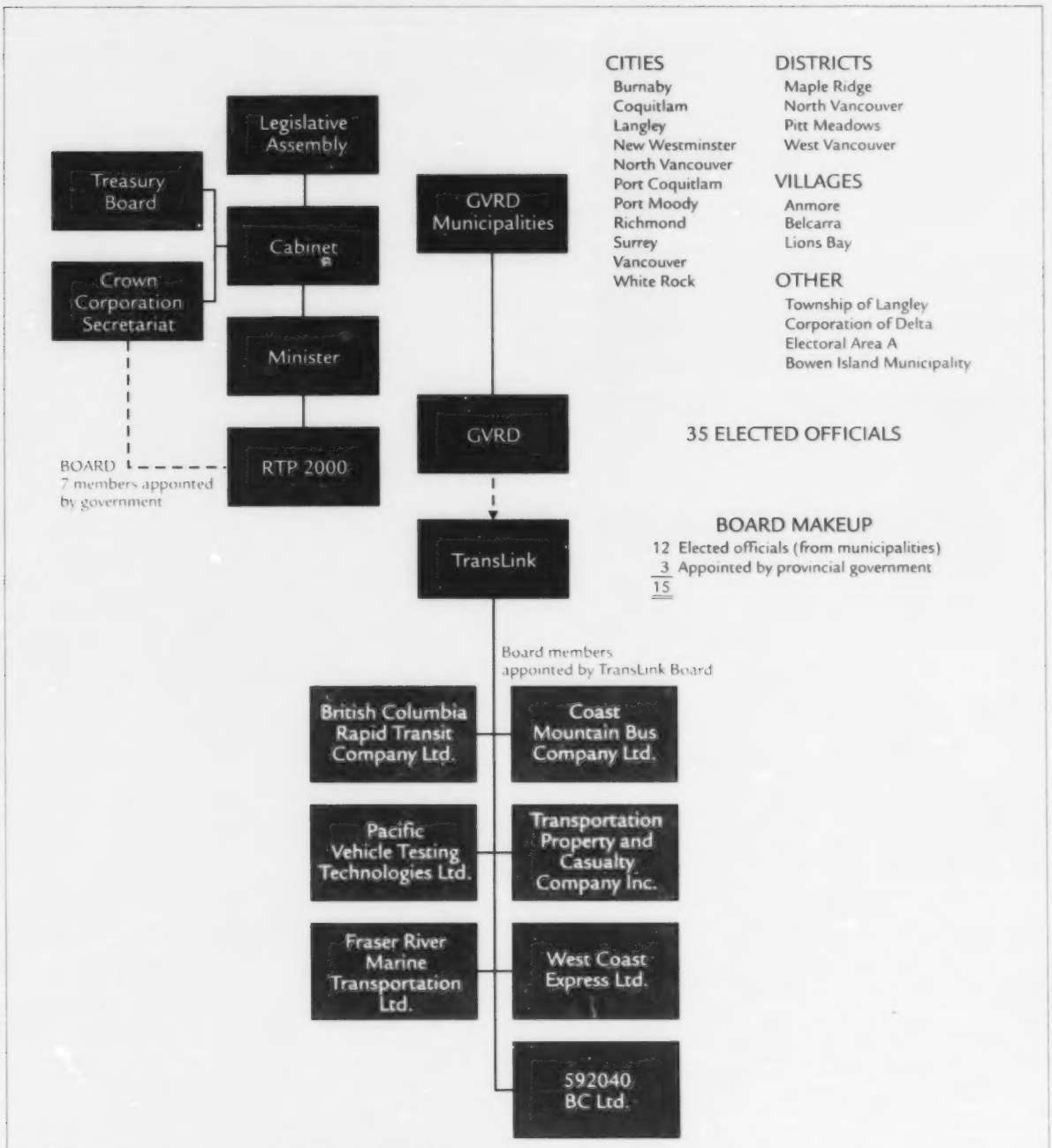
Legislation provides for a complex, shared governance environment

When they established TransLink, the Province and the GVRD agreed they wanted an entity that would be integrated with land use planning, linked to local decision-making, and efficient. However, each had a different vision of what the new governance arrangements should look like.

The size of the board, the appointment process and the checks and balances needed were discussed, with input from municipalities in the region and other stakeholders. The GVRD wanted a large board with strong municipal representation. The Province wanted local politicians to be represented but favoured a smaller board with broader representation. Larger municipalities wanted board representation commensurate with their population. Smaller municipalities feared that if this were the case they would have little opportunity to participate directly on the board. The business community wanted business representatives, and other groups suggested transit users be represented. Eventually, a governance arrangement evolved that was acceptable to both the provincial government and the GVRD (see Exhibit 10).

Exhibit 10

Many parties are involved with transportation issues in Greater Vancouver



GVRD: Greater Vancouver Regional District
RTP 2000: Rapid Transit Project 2000 Ltd.

TransLink was established in July 1998 by the Greater Vancouver Transportation Authority Act (GVTA Act). It is a large organization, with a budget that is about twice the GVRD's. It is also an unusual organization. It has the powers and rights of a business enterprise to manage its service delivery and infrastructure. Unlike a typical business enterprise, however, the legislation provides for protection against competition by requiring TransLink's approval for the operation of independent transit operations within the region. At the same time, like municipal councils and regional districts TransLink can raise revenue from public sources. It must also consider public policy when determining what services to provide and what sources of revenue to use.

TransLink's governance environment is shaped by four pieces of legislation:

- the Local Government Act (which applies to the GVRD, and to most municipal politicians) and the Vancouver Charter (which applies to City of Vancouver politicians);
- the Greater Vancouver Transportation Authority Act (which applies to TransLink, the GVRD and the provincial government); and
- the Company Act (which applies to TransLink's subsidiaries).

Although TransLink is a separate entity from the GVRD, the latter can be viewed as a controlling shareholder. (This is confirmed in the GVRD's 2000 financial statements, which note that TransLink is controlled by the GVRD and accountable to the GVRD board and—through them—to the local electorate.) As well, the Province has an interest in the performance of TransLink because of its effects on employment and economic development, and its links to the provincial transportation system. It also has a role as a funder of capital projects and can assist TransLink in fundraising for operational needs. In effect, then, there is a shared governance structure: that is, TransLink's key decisions require either GVRD ratification or provincial government support to be implemented. This is a difficult environment in which to make decisions efficiently and with certainty.

In the following sections of Part III, we address governance issues at two levels: TransLink's relationships with key stakeholders; and governance issues that are directly under the control of TransLink's board.

TransLink's Relationship with the Public

TransLink carries out its activities in an open and public manner

The GVTA Act requires TransLink to carry out a comprehensive public consultation process before finalizing its strategic plans or deciding to assess property taxes, toll charges, vehicle fees or parking taxes. We found that TransLink has done so. During the development of the strategic plan, several rounds of consultation were carried out over a period of a year, and a variety of opportunities were provided for public feedback on the plan and on funding options. In addition, for each of its area (sub-regional) transit plans, TransLink has set up a public advisory committee with members appointed by local councils. There is also a technical advisory committee for each plan, as well as consultation at the community level.

TransLink's board meetings are open to the public. Board agendas, minutes and supporting reports and documents are made available on TransLink's website. As well, the board has established a committee of the whole, meeting monthly, to hear the public's views and concerns about the transit system.

Overall, we concluded that TransLink has taken a comprehensive approach to keeping the public and other stakeholders informed about its activities. The only area of weakness we noted is in formal accountability reporting.

The GVTA Act calls for TransLink to produce an annual report on its operations and those of its subsidiaries, as well as audited financial statements. We found that, while TransLink prepares the appropriate statements (and posts them on its website), and issues quarterly updates to municipal and other stakeholders, it has not prepared an annual report. Such a report, we believe, plays an important role in the accountability process.

Current expectations for a public organization are that it will produce an annual report that is timely and linked to its plans, and that presents an objective and complete assessment of its activities, achievements, financial position and performance. Financial statements are only part of the information needed: annual reports should cover financial performance, operational performance and compliance with laws and regulations. They should also include a statement of the governance principles the organization has adopted, and indicate how it has applied them.

The GVTA Act does not require TransLink to hold a public annual general meeting at which its performance can be examined and discussed. However, we believe that, in addition to the annual report requirement, a public meeting would provide a fuller accountability for TransLink's performance.

Recommendation:

TransLink should prepare an annual report in a manner that is consistent with current public sector expectations, and conduct an annual general meeting at which its performance can be discussed.

TransLink's Relationship with the GVRD

The GVRD has significant authority over TransLink, and its oversight should reflect this

The GVRD board exercises control over TransLink in two important ways:

- It appoints 12 of TransLink's 15 board members.
- It has veto power over a number of strategic operating and financing decisions.

TransLink must obtain GVRD ratification of its regional transit plan. As well, it must obtain GVRD approval of any proposed property taxes, toll charges, parking taxes or vehicle levies. The only revenues that TransLink can increase without GVRD approval are transit fares and similar user fees.

This relationship obligates the GVRD to ensure that TransLink is carrying out its responsibilities in an appropriate manner. This includes seeing that TransLink adequately accounts for its performance on a regular basis, and monitoring TransLink's success in achieving planned targets.

The GVRD's oversight of TransLink is based primarily on the overlap between the two boards, and on ratification requirements. (TransLink does prepare a quarterly update for stakeholders and municipalities; and once a year the GVRD holds a "council of councils" meeting, where all mayors and councillors in the region can hear TransLink's plans and express their views on TransLink's performance.) We believe that these indirect mechanisms are insufficient and a more formal arrangement is needed—one that states what information is to be provided, and how often.

Recommendation:

The GVRD should clearly identify how it will hold TransLink accountable.

The GVRD's method of appointing TransLink board members does not meet current governance standards

TransLink's board plays a key role in the region's transportation system. When the negotiations to set up TransLink were concluded, the negotiators summarized that role as follows: TransLink will be "a single, accountable entity that will exercise control over regional transportation planning, policy, service levels, budgets and financial arrangements. [It] will have responsibility for the integration of the region's transportation system with land use development and the achievement of air quality objectives. [It] will focus on strategic issues while operations, including bus operations, will be undertaken by subsidiary companies or contractors ..."

The Act constrains the board's composition

The GVTA Act makes the GVRD responsible for appointing 12 of the 15 TransLink directors. Each appointee must be either a mayor or a member of the GVRD board. The Act further specifies the number of directors to be appointed from specific areas within the GVRD (see Exhibit 11).

We believe that these provisions make the TransLink board more like a committee of the GVRD than a separate body. Furthermore, such a constraint imposes other problems:

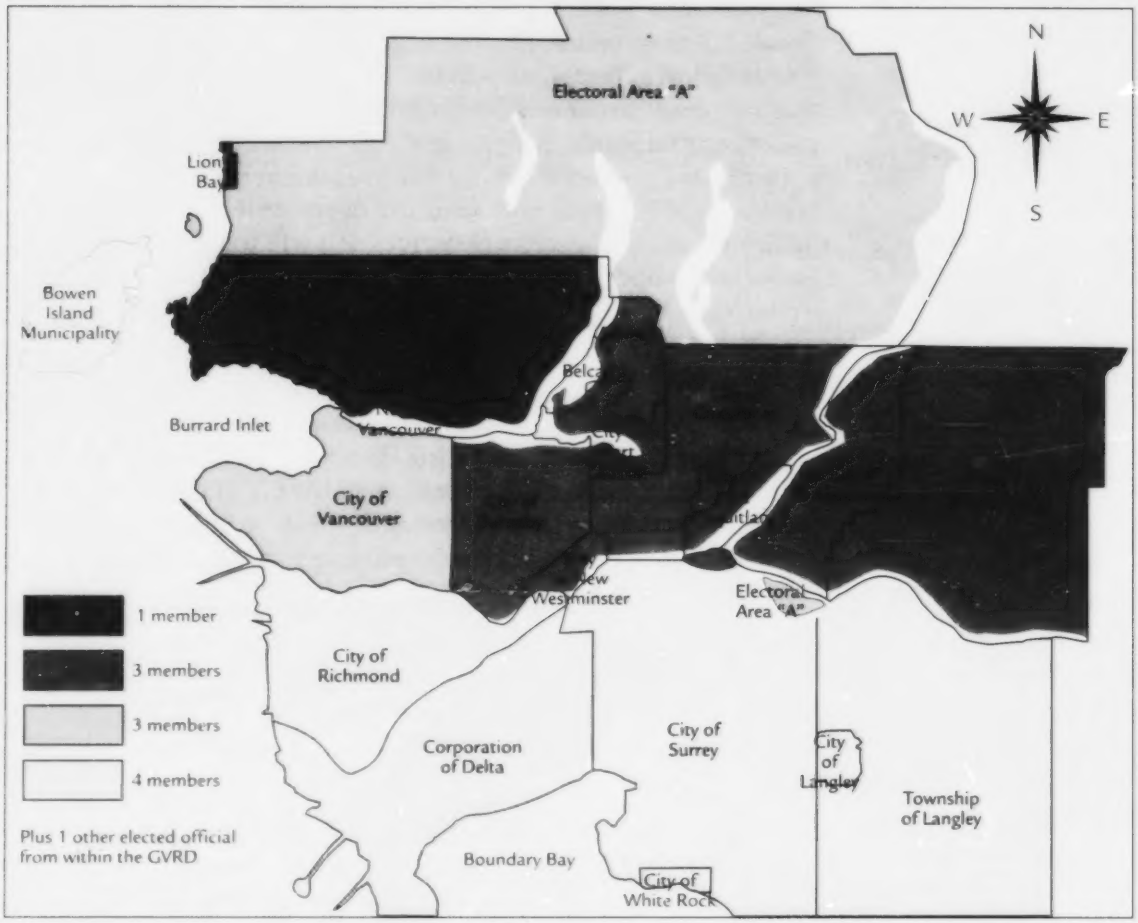
- It limits the pool of candidates, and thus the skills and experience, available to the board.
- It puts individuals who were elected to represent the interests and needs of their communities on a board where they may be in conflict with that requirement.
- It can lead to wholesale turnover of the board. (Members must leave TransLink's board if they lose a municipal election, or are not reappointed to the GVRD board and are not a mayor. As well, recent amendments to the Local Government Act let a municipality change its representative on the GVRD board when it wants; previously a representative served for a full year.)

Further, we do not believe that the GVRD can provide arm's-length monitoring of TransLink's performance when nine of its current members (including its chair) are also on TransLink's board.

The main advantages outlined for the current model by its proponents were the integration of land use planning and transportation services (by having one agency whose role encompassed both) and better accountability. In our opinion,

Exhibit 11

Regional representation on the TransLink board



Source: Greater Vancouver Regional District

neither of these important goals necessitates that a board be composed only of elected officials.

We believe that the legislation should be re-examined, and ways found to provide greater flexibility in board membership by allowing non-elected members to be appointed. A number of current TransLink directors expressed concern to us that non-elected individuals on the board could frustrate the wishes of the electorate. However, we believe that the GVRD's control over TransLink addresses such concerns. Moreover, the GVRD could ensure, through the selection process, that members have a sound understanding of the transit and land use strategies adopted by the GVRD.

Recommendation:

The Province, TransLink and the GVRD should consider amending the Greater Vancouver Transportation Authority Act so that non-elected members might be included on TransLink's board.

Criteria and guidelines for selecting members have not been developed

Good practice in the selection of board members calls for:

- a job description for directors;
- a process for reviewing the skills and experience of existing directors;
- an analysis of existing skills and experience against identified board needs;
- a process for soliciting suitable applicants; and
- a process for evaluating candidates to fill in the range of skills and experience needed on the board.

In many organizations, the establishment of such a process is led by the board's governance committee.

During the negotiations to devolve regional transit, the GVRD's negotiator suggested that the GVRD should lay out its criteria for the nomination of TransLink's directors. We agree. In our view, the GVRD—which is ultimately accountable for the adequacy of board membership—should set out the mix of skills, interests and abilities needed on the TransLink board, in order to guide municipalities in proposing board members. To date, the GVRD has not done this.

In addition to selecting the right board members, both continuity and renewal of board members are important. Continuity is needed to allow board members to build experience and expertise. This was recognized during negotiations by the Province's negotiators, who proposed a three-year term for board members. Again, we agree. To date, there has been good continuity as 9 of the 12 GVRD appointees have been on the board since inception. The remaining members have changed because two of the four sub-regions have chosen to rotate their members, so that a nominee serves only one year before being replaced.

As to renewal, there is no clear policy. In particular, we are concerned that the GVRD has acquiesced to the idea of rotating board members. Unless those being replaced have shown deficiencies in performance, this rotation is contrary to good governance. It can easily take a year for a board member

to become proficient in understanding an organization as complex as TransLink. With the present approach, board members may be replaced just when they develop proficiency.

Recommendation:

The GVRD and TransLink should develop guidelines for nominating potential members to the TransLink board, including a policy on appointment terms, board renewal and the competencies required by the board.

The board's size should be re-evaluated

The Act specifies that the TransLink board should have 15 members. By contrast, a number of Crown corporations have boards of not more than 9 to 11 members (BC Transit has a board of 7). The size of TransLink's board reflects both the GVRD's interest in having as much representation from municipalities as is practical and the Province's interest in being represented.

When TransLink was set up, the Province agreed that it would consider GVRD recommendations for changing the composition of the TransLink board, and would implement those that were mutually agreeable. Last year, the GVRD and TransLink set up a small task force, composed of board members from both organizations and their two CEOs, to consider TransLink's structure and responsibilities (particularly in relation to the structure and responsibilities of the GVRD) and recommend any changes necessary.

The task force recommended that: membership on TransLink's board be increased from 15 to 20; appointment be limited to GVRD directors or mayors of municipalities; there be member alternates; and, the three government members be replaced by a non-voting liaison representative from the provincial government.

The overall purpose of the recommendations appears to be to provide a higher level of representation. While we recognize regional concerns about representation, we believe they are fully, and more appropriately, addressed at the GVRD level. Because all municipalities are already represented on the GVRD board, which controls TransLink, the degree of regional representation should not be a major consideration for the TransLink board. The focus should be on what is an efficient size to provide for effective governance of TransLink. The current size, 15 members, is more than sufficient and the board could be smaller without affecting the board's ability to perform.

Recommendation:

The size of TransLink's board should be re-examined and perhaps reduced.

The GVRD's rendering of accountability for TransLink does not meet current public sector expectations

Because the GVRD controls TransLink (it appoints a majority of members to its board and has ratification powers over its key financing decisions), it is thus accountable to the public for TransLink's performance. We found that this accountability is not being exercised in a way that meets either the legislated requirements of the Act or current public sector expectations.

Although the GVRD provides much information to the public on air, water, sewage, garbage and regional development, it does not provide similar information on regional transportation. Even its financial information on regional transportation is limited, since the GVRD's audited financial statements do not consolidate the operations of TransLink. In its 2000 financial statements, the GVRD has stated that it will consolidate TransLink's operations in future periods' statements. We agree with this plan, as at present the cost and revenue of operations are significantly understated in the GVRD's financial statements. For example, its consolidated operating expenditures for 2000, shown as $269 million, exclude the $547 million expended by TransLink.

Nor does the GVRD provide a comprehensive annual report. This, we believe, is part of the more general problem of accountability expectations for regional districts not meeting emerging expectations in the public sector. Unlike school boards, health boards, health councils and Crown corporations, regional districts have no legislated requirement to produce an annual report, or to hold an annual public meeting to review the year's performance. The only requirement is that any region which has adopted a regional growth strategy must provide an annual report on its implementation of that strategy. The GVRD has done so, and the 2000 annual report (available on its website) on its growth strategy, the Livable Region Strategic Plan, includes a number of transportation-related indicators and their trend over time. This information is a good start, which could be further improved by clearer analysis of how planned and actual performance compares.

Recommendation:

The GVRD should identify how it will provide public accountability for its responsibility for TransLink, and consider developing a more complete approach to reporting annually on its transportation-related performance.

TransLink's Relationship with the Provincial Government

The provincial government can frustrate TransLink's decision-making

When TransLink was established, one of its defining features was to be the range of funding sources available to it. It is now clear that some of those sources are, realistically, only available with provincial government consent and action. For example, regulations may be required to enforce the payment and collection of fees, tolls and levies. Also, the efficient collection of a vehicle levy requires cooperation from provincial agencies.

The problem is that legislation does not obligate government to support board decisions (a situation that has placed the implementation of TransLink's strategic plan—approved by TransLink and the GVRD—at risk). This has led to a strained relationship between the Province and TransLink.

We accept that the Province needs the flexibility to make its own decisions on matters where it is involved. However, if the provincial government can, in effect, override the decisions of TransLink's board, then the original expectation of having more local decision-making is not being met.

Recommendation:

The Province should reassess its role in the Greater Vancouver regional transportation system with a view to removing impediments to the implementation of TransLink board decisions.

Provincially appointed board members have difficulty serving

Under the GVTA Act, the provincial government has the right to appoint 3 (of the 15) TransLink board members, who must be either Members of the Legislative Assembly from the region or Ministers with a portfolio related to transportation or municipal affairs.

Our review disclosed some short-term difficulties for the government appointees, but also raised questions about the long-term implications of the present requirement for Ministers or MLAs to serve on the board.

In the short term, we found that government appointees have not often attended board meetings. Reasons included the time required to carry out duties both as an MLA and a board member, and difficulty in being absent from the Legislative Assembly when it was in session. This was particularly an issue over the past two years when the number of government members was almost matched by the number of opposition members. There were several TransLink meetings at which no MLA was present, and at no time did all three attend.

There are also unresolved questions about the role MLAs are to perform as board members. All board members must conduct their affairs with the intent of serving the best interests of TransLink, yet this can be problematic for MLAs or ministers. If they are there to monitor the board or to communicate government views, doing so would make it difficult to function effectively as a board member. They also face being in a conflict when TransLink and the Province have differing policy positions.

These problems were recognized by the MLA members of the board, who in the end asked that their appointments be rescinded. In December 2000, this happened and the board was advised by the government that MLAs would not be attending future meetings. However, the legislation has not been amended, so a quorum of the board continues to be 8 members, even though there can be at most only 12 present.

In the longer term, the devolution of transportation decision-making to the regional level raises questions about the need for provincial representation on the board. We believe that the Province's interests can be better met through an appropriate oversight role, one that provides the Province with the information it needs for policy setting and decision-making, without the need for board participation.

Recommendation:

The Province should consider changing the Greater Vancouver Transportation Authority Act to eliminate the need for provincially appointed board members.

Oversight provisions have not been clearly set out

During the deliberations on establishing TransLink, it was expected that how the provincial government was to exercise an oversight role would be specified before TransLink started operations. Although the GVTA Act did not address this issue, it does provide some opportunities for that oversight. For example, it allows the Auditor General or the Comptroller General to inspect financial records regarding government funding. As well, since TransLink is subject to the Financial Information Act, the government can request any information it feels it needs, and can order an audit if the information is not provided. However, government has not directed central agencies like Treasury Board Secretariat or Crown Corporations Secretariat to monitor TransLink on its behalf. And, as we just noted, the use of MLAs on the board has not worked well; in our view, it is not reasonable to expect board members to fulfill a monitoring or oversight role on behalf of the Province.

This report has already noted several disputes between TransLink and the provincial government on major issues, including the pace of expansion, sources of revenue, and how best to operate and maintain the new lines. An agreed-upon oversight process could establish a basis for ensuring that each party understands the other's views, priorities and expectations, and help prevent decisions that could divide TransLink and the provincial government.

Because the provincial government can greatly influence TransLink's performance—and can in turn greatly benefit from TransLink's success—it needs a way to provide for information exchange. A number of options exist, including formal government participation in the planning process, and periodic meetings focused on updating each other on the progress of key initiatives, the adequacy of risk management, and changes in public policy matters that could affect implementation of TransLink's plans. Translink and the government should base their relationship on two previously-agreed principles:

- decision-making is best done at the local level, and
- TransLink, not the government, is accountable for setting the direction and goals for the regional transportation system.

If there is to be good governance over the regional transportation system, good relations and understanding between TransLink and government need to be re-established.

With a new provincial government in place, the opportunity exists to establish new relationships, clarify expectations and agree on systems and processes that will allow each side to understand the other's position on key issues.

Recommendation:

The Province and TransLink should develop oversight arrangements that meet the Province's needs.

TransLink's Relationship with Its Subsidiaries

Governance relationships between TransLink and its subsidiaries need greater clarity

As most of TransLink's business is conducted through subsidiaries (see Exhibit 10), we were concerned by the absence of comprehensive policies and guidelines pertaining to the governance arrangements between TransLink and its subsidiaries. There are not even guidelines for such basic matters as minimum frequency of board meetings. (We found that two subsidiary boards had not met for about one year: their annual budgets were approved by the TransLink board without having been reviewed or approved by the subsidiary boards.)

One area that has been clearly laid out is the accountability obligations that subsidiaries have to TransLink. TransLink can review and approve its subsidiaries' operating and capital budgets and inspect their books and records. It also receives from them monthly financial statements, annual budget proposals, annual updates of long-range capital plans, and audited financial statements.

However, the TransLink board has recognized the need for greater clarity about the responsibilities TransLink has toward its subsidiaries, and an initiative is underway to address this. Its focus appears to be on roles and relationships at the senior management level. We believe that the broader governance arrangements between the TransLink board and its subsidiaries must also be clarified and documented.

Recommendation:

TransLink should develop and document principles, policies and procedures for the governance of its subsidiaries.

The appointment of directors of subsidiaries should be based on principles of good governance

We found no documented principles and practices regarding appointments to the boards of TransLink's subsidiaries. We expected to find such documentation, since the subject had been considered during the devolution negotiations. The negotiators had proposed that there be criteria for who was eligible to serve on boards, how long they should serve, and how big the board should be. In addition, GVRD representatives proposed that any lack of expertise on the TransLink board could be compensated for by placing external, business-oriented individuals on the subsidiary boards.

We found that, in TransLink's three main subsidiaries, the boards consist of the subsidiary's CEO and two TransLink board members, with no external representation. Until September 2000, these boards had two management representatives and one TransLink member. The change was made, we were told, so that decision-making authority would rest primarily with elected officials. Such an arrangement is contrary to a view that several TransLink board members expressed to us: namely, that politicians should set policy at the TransLink board, with more business-oriented boards being responsible for operational decisions in subsidiaries.

In our opinion, the current structure is inconsistent with good practice because it makes elected officials responsible both for making policy and implementing it. To maintain TransLink's ability to monitor subsidiary performance at arm's-length, only a minority of subsidiary directors should be from the parent board. Minority membership would be sufficient to encourage good communication, information exchange, and policy integration. Too many common directorships weaken how well a subsidiary's performance can be monitored. The situation becomes, in effect, like asking directors to comment on their own performance.

Recommendation:

TransLink should reassess its approach to making appointments to subsidiary boards.

TransLink's Board Operations

TransLink needs a governance manual

We expected to find that TransLink has documented its governance principles, policies and expectations and made these available to directors in a manual. In fact, we found little documentation. A basic governance framework is set out in legislation, but does not address such important issues as:

- in whose best interests the members are to act;
- how monitoring and accountability are to be carried out; or
- how board performance is to be evaluated.

There is a resource guide for directors containing information about TransLink and some aspects of board operations (such as rules of procedure). However, as it lacks information on the important issues listed above and other matters discussed in this report, we do not consider it to be a complete governance manual.

Recommendation:

TransLink should document its governance policies and practices in a governance manual.

TransLink's directors operate within a complex legislative framework, so their duties need to be clearly stated

Most members of TransLink's board are also on the GVRD board, and some are on subsidiary boards as well. All are members of a municipal council, where most are guided by the Local Government Act, which states they are elected "to represent the interests and respond to the needs of their communities." (The Local Government Act also applies to members of the GVRD board.)

Board members of TransLink's subsidiaries must follow the Company Act, which says that directors are to "act honestly and in good faith and in the best interests of the company" and to "exercise the care, diligence and skill of a reasonably prudent person." The Act specifies three important statutory duties of directors:

- a fiduciary duty (to act honestly and in good faith and in the best interests of the company);
- a duty of care (to exercise the care, diligence and skill of a reasonably prudent person); and
- a duty to avoid conflict of interest (to disclose any direct or indirect interest in the affairs of the entity).

Members of TransLink's board must follow the Greater Vancouver Transportation Authority Act, which states that the board's role is to "supervise the management of the affairs of the authority." This Act does not specify the duties of directors, but common law suggests that the Company Act's description of a director's duties also applies to TransLink directors.

There are two types of conflict that could affect a director's ability to act in the best interests of an organization: a financial interest, and the holding of a competing office. Because TransLink directors can have multiple fiduciary responsibilities (to TransLink, to one of its subsidiaries, to the regional district, to a municipality), they have to be especially aware of the risk of the second kind of conflict.

The problem is a real one. For example, two directors have resigned from a subsidiary board because of a perceived conflict between their role there and on the TransLink board.

Recommendation:

The Province, TransLink and the GVRD should consider amending legislation to clarify the duties of TransLink board members.

Several TransLink directors told us that because they were selected by their municipal council to serve on the TransLink board, in their opinion their first obligation and accountability was to their municipal council, not to TransLink. One suggested that directors should have the option to exercise their vote as directed by their municipalities because legislation does not clearly state directors have to act in the best interest of TransLink.

TransLink has a policy on conflict of interest related to personal gain and dealings with private corporations. However, the policy does not address conflict between municipal and TransLink responsibilities. The board has considered conflict-of-interest issues at several recent meetings, and has asked staff to review conflict-of-interest issues for directors.

We concluded that there is a need for more comprehensive guidelines on issues of potential conflict, and for uniform understanding and acceptance of what is expected.

Preferably, this information should be incorporated into a governance manual.

Recommendation:

TransLink should develop comprehensive guidelines that address director duties and conflict-of-interest issues.

Orientation and education for directors need to be improved

Given TransLink's complex governance environment, new directors require substantial information about the relationships between the various governance agents, the legal obligations of board members, conflict-of-interest issues, and the governance arrangements between TransLink and its subsidiaries. We noted that TransLink had held a workshop in January 2001 to brief new board members and update those returning. The information presented included details about TransLink's and its subsidiaries' operations and organization, and about board operations and procedures such as the process for receiving submissions from public delegations. The one improvement we suggest is that, as members can operate under any of four Acts, the statutory differences between the roles be explored.

Currently, the board has no policy on the ongoing education of board members, and no plan for improving the ability of directors to perform more effectively. For example, no members of the board other than the chair have had the opportunity to attend seminars or conferences on transit or governance matters. In our view, the better informed that members are about such matters, the better they will be able to serve in their stewardship capacity.

Recommendation:

TransLink should develop a comprehensive program of orientation and continuing education for its board members.

Board committees would help improve governance

We believe that appropriate board committees are part of good governance, because they help ensure that key issues can be examined in detail and with the time necessary. We were surprised to find that TransLink's board had not established any standing committees other than the committee of the whole (the committee to whom delegations make their presentations). While ad hoc committees and workshops have been established to deal with specific issues, the need still exists for appropriate standing committees.

We believe that the governance of TransLink would benefit from the establishment of at least two committees at this time:

- A governance committee, charged with establishing a comprehensive governance framework and documenting governance policies and practices. (The governance committee could take the lead in implementing many of the recommendations made in this section of our report.)

- An audit committee, charged with scrutinizing the quarterly and annual financial statements, approving internal audit plans and reports and overseeing internal and external audits.

Recommendation:

TransLink's board should consider establishing the committees needed to support its governance role, particularly a governance committee and an audit committee.

TransLink's board needs to be more active in identifying its information needs

To carry out its responsibility of assessing how well management has been implementing its plans, a board needs information about system performance, key risks, and the results of internal audits.

TransLink's management prepares a quarterly document, directed to the board and to municipal councils, that summarizes initiatives undertaken and how they contribute to the critical success indicators identified in TransLink's vision and values document. Thirteen performance indicators are tracked and reported on quarterly. Customers are also surveyed quarterly and the results reported, both for the overall system and for each transit mode. These reports, we found, provide a good high-level overview of how the system is performing. The board also receives regular quarterly reports on how subsidiaries are performing. Financial, operational and capital project information is presented, and actual performance is tracked against targets established as part of the budget process.

To further refine these useful reports, we think the board should consider formally assessing whether the information they contain meets the board's needs in terms of content and level of detail.

The efficiency and effectiveness of an organization's performance can only be assessed if the right measures are used and the right targets established. One important way of doing so is to consider the key risks the organization faces.

We found, however, that TransLink has not carried out a formal broad-based assessment to identify its financial, operational, environmental and human resource risks. Such an assessment should involve systematically weighing the likelihood and possible impact of, for example:

- funding sources not being available as planned;
- organizational inefficiencies emerging;

- actions undermining public confidence in the organization; or
- outside circumstances adversely affecting service delivery.

Knowing more about potential risks would help the board focus on the primary risks and develop strategies to mitigate them. Otherwise, the board may be devoting its energies to issues that are less significant than others.

Recommendation:

TransLink's board should ensure that a comprehensive risk assessment is carried out and an appropriate risk management strategy developed.

TransLink's internal audit unit could be very useful in meeting the board's information needs. However, we believe the board must play a more active role in developing the unit's annual audit plan, to ensure that the plan meets the board's information needs and addresses the topics of most concern and interest to it. Another area where the board could get more value from its internal audit unit is in reporting. At present, no policy requires that the TransLink board be regularly updated on internal audit activities and findings. The TransLink board receives an annual summary report only. For audits carried out in subsidiaries, reports go to the subsidiary boards only.

Recommendation:

TransLink's board should ensure that the internal audit unit's plans and reports meet the board's information needs.

A process for assessing CEOs' performance has not yet been developed

Because chief executive officers (CEOs) are responsible for implementing a board's policies, a board should have processes in place to provide it with sufficient information about management performance. TransLink lacks clear processes by which the performance of its CEO can be evaluated by the board. Directors we interviewed were aware that the board should have a role in evaluating the performance of its CEO. The TransLink board should also set up a process by which subsidiary boards provide it with assurance as to the performance of their CEOs.

Recommendation:

TransLink's board should ensure that formal appraisal systems are in place for its CEO, and the CEOs of its subsidiaries.

TransLink's board is not yet assessing its own performance

It is a generally accepted practice for boards to assess their own performance, both collectively and individually. Such regular feedback provides the opportunity to make needed changes.

Most TransLink board members told us they accept the need for the board to understand how well they function (although some questioned how practical such assessment is for a "political" board). Although the board has spent time at workshops considering its performance, it does not have a formal and ongoing assessment process. In our view, this deficiency needs to be addressed.

Recommendation:

TransLink's board should develop a process for regularly evaluating the performance of the board and of its directors.

summary of recommendations

summary of recommendations

Part I: Are Service and Financial Expectations for Regional Transit Being Met?

1. ***The Province should follow through on its commitment to help TransLink efficiently collect the revenue it needs to maintain and expand its service levels.***

Part II: Will Rapid Transit Expansion in Greater Vancouver Occur as Planned?

2. ***The Province and TransLink should use the start-up cost allocation principles proposed by the Province's consultant. If they are unable to reach timely agreement on the allocation of start-up costs, they should use the arbitration provisions set out in the cost-sharing agreement.***

3. ***The Province should, in a timely fashion, share with TransLink all information that is relevant to the construction of the SkyTrain expansion.***

4. ***The Province should analyze its options for dealing with its commitment to offer Bombardier Inc. a SkyTrain operating and maintenance contract, and work with TransLink to reach agreement on the option that offers best value for money to taxpayers.***

Part III: Does the Governance Structure Promote Good Governance, Accountability and Decision-Making?

5. ***TransLink should prepare an annual report in a manner that is consistent with current public sector expectations, and conduct an annual general meeting at which its performance can be discussed.***

6. ***The GVRD should clearly identify how it will hold TransLink accountable.***

7. ***The Province, TransLink and the GVRD should consider amending the Greater Vancouver Transportation Authority Act so that non-elected members might be included on TransLink's board.***

8. *The GVRD and TransLink should develop guidelines for nominating potential members to the TransLink board, including a policy on appointment terms, board renewal and the competencies required by the board.*

9. *The size of TransLink's board should be re-examined and perhaps reduced.*

10. *The GVRD should identify how it will provide public accountability for its responsibility for TransLink, and consider developing a more complete approach to reporting annually on its transportation-related performance.*

11. *The Province should reassess its role in the Greater Vancouver regional transportation system with a view to removing impediments to the implementation of TransLink board decisions.*

12. *The Province should consider changing the Greater Vancouver Transportation Authority Act to eliminate the need for provincially appointed board members.*

13. *The Province and TransLink should develop oversight arrangements that meet the Province's needs.*

14. *TransLink should develop and document principles, policies and procedures for the governance of its subsidiaries.*

15. *TransLink should reassess its approach to making appointments to subsidiary boards.*

16. *TransLink should document its governance policies and practices in a governance manual.*

17. *The Province, TransLink and the GVRD should consider amending legislation to clarify the duties of TransLink board members.*

18. *TransLink should develop comprehensive guidelines that address director duties and conflict-of-interest issues.*

19. *TransLink should develop a comprehensive program of orientation and continuing education for its board members.*

20. *TransLink's board should consider establishing the committees needed to support its governance roles, particularly a governance committee and an audit committee.*

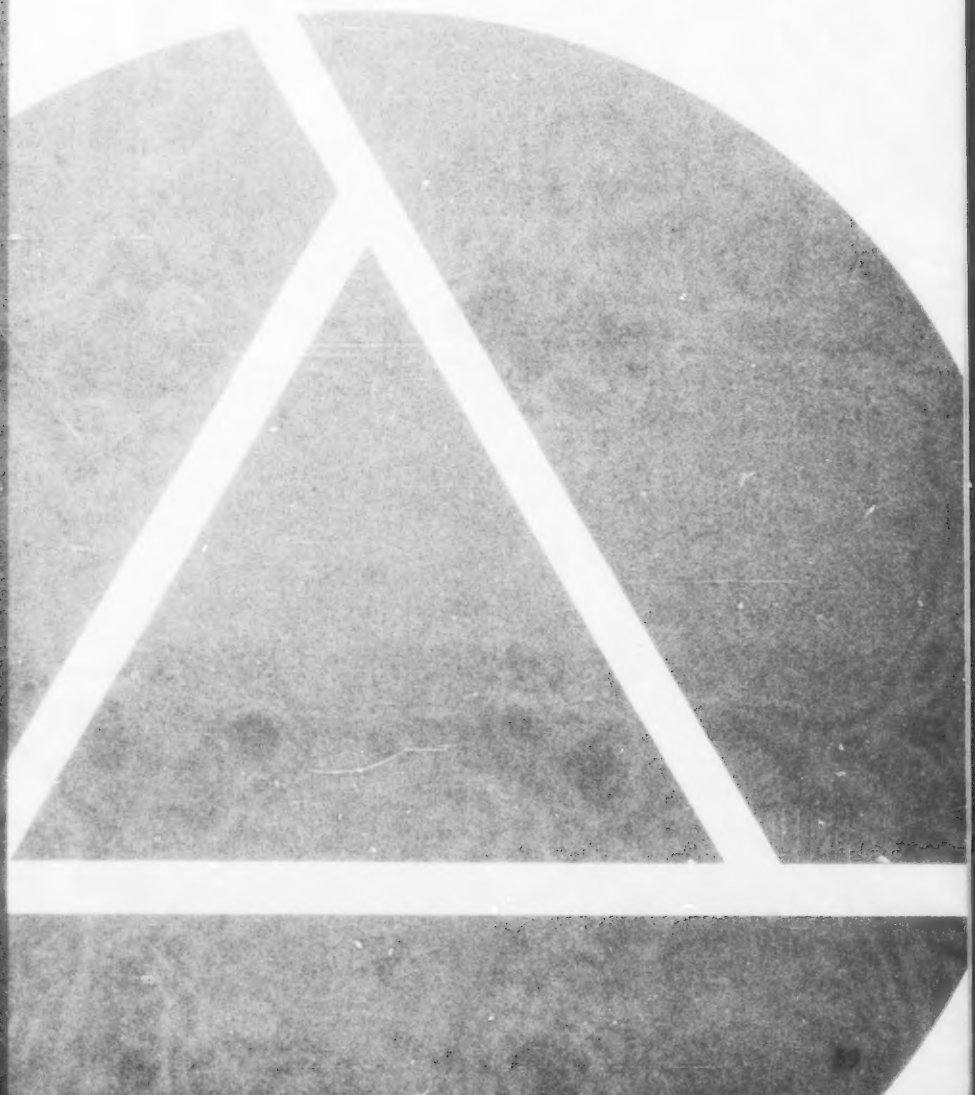
21. *TransLink's board should ensure that a comprehensive risk assessment is carried out and an appropriate risk management strategy developed.*

22. *TransLink's board should ensure that the internal audit unit's plans and reports meet the board's information needs.*

23. *TransLink's board should ensure that formal appraisal systems are in place for its CEO, and the CEOs of its subsidiaries.*

24. *TransLink's board should develop a process for regularly evaluating the performance of the board and of its directors.*

appendix



appendix

Office of the Auditor General: 2001/02 Reports Issued to Date

Report 1

Managing Interface Fire Risks